

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 1 EXAMINATIONS 2009/2010
ADVANCED TAXATION
MODULE NO: ACC3008

Date: Thursday 21st January 2010

Time: 14:00 – 17:00

INSTRUCTIONS TO CANDIDATES:

There are **FIVE** questions on this paper.

Answer **ANY FOUR** questions.

All questions carry equal marks.

The recommended textbook may be referred to in the examination.

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Answer ANY FOUR questions

1. Blue Limited and Red Limited are two independent trading companies. Each company has an accounting reference date of 31 March. Forecast results for each company for the year ended 31 March 2010 are as follows:

	Blue Limited	Red Limited
	£	£
Trading profit (loss)	920,000	(227,000)
Capital gain (loss)	50,000	(14,000)
Bank interest	5,000	1,500
Dividends received from UK companies (net)	900	-

The capital loss is expected to arise on 1 January 2010.

Blue Limited is considering purchasing 100% of the share capital of Red Limited on 30 September 2010. Red Limited is a small company whose directors possess technical expertise but do not have the management skills necessary to run a business. The directors of Blue Limited have negotiated for them to stay on as directors post-acquisition (if it goes ahead). Red Limited has not yet been profit-making but the directors of Blue Limited believe in the product and are convinced that they can make it commercially viable.

Required:

- a) Advise Blue Limited of the additional corporation tax consequences of going ahead with purchasing the entire share capital of Red Limited. **(6 marks)**
- b) Calculate the corporation tax payable by Blue Limited and Red Limited assuming that the purchase goes ahead and that the group decides to utilize any losses in the most efficient manner and explain your choice of loss utilisation. **(10 marks)**
- c) If the purchase goes ahead, the directors of Blue Limited are planning to apply for a group VAT registration. Evaluate the rationale for and consequences of making such an application. **(4 marks)**
- d) The directors of Red Limited are not familiar with VAT accounting. Critically assess the rationale behind the quarterly VAT return system. **(5 marks)**

TOTAL 25 MARKS

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2. Hyacinth Limited is a large retailer with seven subsidiary companies and several overseas investments. It has the following income in respect of the year ended 31 August 2010:

	£
Trading profits	725,330
UK bank interest	16,733
Capital loss	(45,900)
UK dividends	18,000
Rental income from property in Never land	19,500
Dividend income from investment company in Ruritania	32,000

All amounts from overseas sources are stated at their net amounts. The relevant overseas tax rates are as follows:

	WHT rate
	%
Neverland	35
Ruritania	20

Required:

- a) Calculate the profits chargeable to corporation tax of Hyacinth Limited in respect of the year ended 31 August 2010 (assuming FY09 rates apply). You should show your calculations of any relief for foreign tax suffered
(10 marks)
- b) Advise Hyacinth on the treatment of any unrelieved foreign tax suffered.
(5 marks)
- c) Advise Hyacinth whether “unilateral expense relief” may be adopted in this case and explain why a company may choose this type of relief rather than the normal “credit relief”.
(5 marks)
- d) The directors of Hyacinth Limited have asked you to advise them how the “transfer pricing” legislation applies to them in their transactions with overseas group companies.
(5 marks)

TOTAL 25 MARKS

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3. Reuben made the following gifts during his lifetime:

		Value (£)
December 2004	Gift to daughter on occasion of her marriage – the money was used as the deposit for her house	90,000
January 2005	Gift to son to allow him to buy a holiday home in Bulgaria	85,000
May 2005	Transfer to a discretionary trust (net)	250,000
May 2006	Gift to his former university (which has charitable status)	35,000
June 2007	Transfer of his shareholding in the family business to his daughter	120,000

Any tax due on the above transfers was paid by Reuben.

In August 2009, Reuben's aunt left him a townhouse in London; the house was valued at £260,000 at the date of the transfer and IHT of £15,000 was paid at the time.

Reuben dies in April 2010. His estate is valued on death at £388,000. The estate includes the house in London (valued at £265,000) and also a holiday home in Marbella which has a probate value of £144,000. The remainder of the estate is largely comprised of shares and securities.

In June 2010, the executors receive a letter indicate that due to land contamination, the Marbellan property is now only worth half its previous value.

Required:

- a) Calculate the Inheritance Tax payable in respect of the lifetime transfers made by Reuben.
(9 marks)
- b) Calculate the estate chargeable to IHT and the IHT payable as a result of Reuben's death.
(10 marks)
- c) Advise the executors of any reliefs available to them and how they might operate.
(6 marks)

TOTAL 25 MARKS

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4. Isabelle & William are twins.

Isabelle is a company director of Total Services Limited and owns 55% of the company's ordinary share capital. She purchased the shares in May 2003 for £500,000 and is now considering her retirement plans. She plans to retire on 1 March 2010 and at that date; the Balance Sheet of the company is expected to reflect the following assets:

	£
Freehold Property	1,500,000
Goodwill	250,000
Plant & Machinery (all in excess of £6,000 each)	365,000
Investments	275,000
Net Current Assets	<u>345,000</u>
	<u>2,735,000</u>

Isabelle is considering three options:

- Selling the shares to a third party for £2,500,000.
- Giving the shares to her son who would like to be involved in running the company and who would keep the shares indefinitely.
- Transferring the shares to her daughter who has offered to pay her £750,000. She has indicated that she would sell them within the following two years.

N.B. assume Isabelle has used her annual exemption elsewhere

Required:

- a) Advise Isabelle of the tax implications of each alternative providing supporting calculations.
- (17 marks)**

- b) William runs a successful hairdressing business. He bought the salon for £75,000 in February 2003 and is now considering selling the business for £145,000 and setting up a new business (although he has not yet decided where he wants to focus). He does not operate through a limited company.

Advise William of the tax implications of disposing of the business, any available reliefs and tax payment date.

(8 marks)

TOTAL 25 MARKS

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5. Amanda is a UK domicile and is resident and ordinarily resident in the UK for tax purposes. Her husband, Doug, is from Switzerland, and although he has been resident in the UK for the last five years, has retained his domicile of origin as he hopes to persuade Amanda to return with him to Switzerland.

Amanda earns in excess of £140,000 p.a. In the tax year 2009/10, the following disposals are made by Amanda:

- Her main residence which had been purchased in May 1998 for £105,000. She had lived in the house from the date of purchase until May 2002 when they went on an extended holiday to Switzerland for 4 years. During Amanda's absence, the house was let out and upon her return, she resumed residence in the property and lived there until May 2009 when it was sold for £290,000.
- A table which had been purchased for £4,800 in February 2006 and sold for £6,300 in December 2009.
- A was medal which had been purchased for £7,000 in 1963 and valued at £7,300 on 6 April 1965, £12,000 on 31 March 1982 and was sold for £26,500 on 31 December 2009
- Part of a plot of land which had originally been purchased in May 1982. The original purchase was for 10,000 acres, costing £20,000. In August 2009, Amanda sells 4,000 acres for £80,000 incurring costs of £8,665. The remaining land is worth £115,000.

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Question 5 continued

Required:

- a) Assuming all available reliefs are claimed, calculate the Capital Gains Tax payable by Amanda in 2009/10. **(13 marks)**
- b) Doug is considering selling the holiday home which he owns in Switzerland. He expects to realise a large gain on the transaction. Advise him of the UK tax implications of making the sale. **(4 marks)**
- c) How would your advice change if 1/3 of the main residential property had been used as office premises for the last 4 years? **(4 marks)**
- d) Doug also owns a portfolio of shares which he has built up over several years. Advise him as to the capital gains tax rules which would apply if he disposed of his shares a) all on the same day b) in several stages. He has asked if there are any reliefs available which would help to minimise his tax liability. **(4 marks)**

TOTAL 25 MARKS

END OF QUESTIONS