

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 1 EXAMINATION 2010/2011
ADVANCED TAXATION
MODULE NO: ACC3008

Date: 20 January 2011

Time: 10.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FIVE** questions.

Answer **FOUR** questions.

All questions carry equal marks.

The recommended textbook may be referred to in the examination.

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Question 1

Bonnie is in the business of manufacturing satellite dishes. On 15 October 2000, Bonnie purchased a factory in Glasgow for £165,000. Due to the continued expansion, Bonnie will have to sell this factory and move to larger premises. The sales proceeds will be £228,000 and date of disposal will be 1 February 2008. Bonnie has identified three options, which are equally acceptable for her business operations.

Option 1

Purchase of new factory at Newton Industrial Estate at a cost of £300,000. The purchase date would be 1 October 2007.

Option 2

Purchase of two smaller factory units adjacent to each other. This has the advantage of separating the production of old and new models. The first unit would be purchased on 1 December 2007 at a cost of £135,000 and the second on 1 December 2008 at a cost of £155,000.

Option 3

Purchase of new factory in Oldtown Industrial Estate at a cost of £220,000. The purchase date would be 1 December 2007.

Bonnie has capital losses brought forward of £ 7,600.

Required:

- a) Formulate any chargeable gain for Bonnie disposal of the factory in Glasgow, prior to any available relief. (9 marks)
- b) Prepare notes for a meeting with Bonnie to evaluate the implications of any relief on each of these options. Your notes should be supported by relevant calculations. (16 marks)

(Total 25 marks)

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Question 2

XYZ Limited has a 100% subsidiary, PQR Limited and each company prepares its accounts up to the year ended 31 March. Results for 2011 are as follows:

	XYZ Ltd	PQR Ltd
	£	£
Adjusted trading profit/(loss) before capital allowances	279,600	(112,000)
Deposit interest received	4,000	2,000
Chargeable gains/(losses)	7,900	(4,000)
Capital allowances	2,400	1,800

XYZ Ltd has capital losses b/f of (£2,700).

Requirement:

- a) Suggest how the losses of PQR Ltd may be most effectively used, assuming that it does not anticipate being profit-generating for the foreseeable future
 (10 marks)

- b) Write a letter to the directors of XYZ Limited advising the corporation tax payable and evaluating whether there is any tax benefit which could be obtained by PQR Limited from the capital loss of XYZ Limited
 (15 marks)

(Total 25 marks)

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Question 3

a) Robert Jones held 140,000 shares in MNO plc. He sold 125,000 shares on 5 October 2010 for £3.20 per share. He had acquired the shares as follows:

Date	Number acquired	Price per share
21 June 1980	30,000	£1.30
9 December 1983	70,000	£1.35

In June 1988 there was a rights issue of 2 ordinary shares for every 5 held at £1.10 per share. Robert took up his full rights issue. The shares were quoted at £1.25 on March 1982. (The shares do not qualify for entrepreneur's relief).

Requirement:

a) Calculate the amount of chargeable gain on the disposal.

(12marks)

b) On 9 January 2011, his wife, Roberta sold 50,000 ordinary shares in Jones Limited, an unlisted trading company for £230,000. She had acquired the shares on 21 March 2003 when she purchased them from her mother for £120,000. Her mother had initially purchased them on 19 December 1998 for £128,000. Alice and her mother had taken professional advice at the date of transfer; the tax adviser had indicated that they could avail themselves of relief for gifts of business assets which they did. The market value of shares on that date was £168,000.

Advise Roberta as to the amount of chargeable gain on the disposal of the shares. She has also asked you to compare and contrast the tax treatment of the disposal if gift relief had not been available and the impact that it would have had on the current disposal.

(13 marks)

(Total 25 marks)

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Question 4

Kath died on 12 October 2010 leaving a net estate worth £250,000. On 1 December 2008 she had made a gift to her daughter with a value of £400,000 having used all of her exemptions. She had made no previous transfers of value.

Requirement:

- a) i) Her daughter has asked you to advise on the IHT payable, by whom it should be paid and to identify the payment mechanism.
ii) How would your advice change if the value of the gift to Kath's daughter had fallen in value and was only worth £350,000 at the date of Kath's death?
iii) Kath's daughter has heard about the possibility of a "deed of variation". She has asked you to evaluate whether you think there is any possibility in respect of her mother's will.

(18 marks)

- b) Out of the money which her mother had given to her previously, the daughter had made a chargeable lifetime transfer (after deduction of relevant exemptions) of £48,000. Her only previous chargeable lifetime transfer was made in 2006 and had a gross value (after exemptions) of £283,000. Advise her on the tax consequences and alternatives of any tax liability during her lifetime.

(7 marks)

(Total 25 marks)

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Question 5

a) You are a tax adviser in a firm of chartered accountants. A prospective client has approached your firm for some tax advice. The tax partner has asked you to prepare a briefing paper for his meeting. The client has asked for advice on the differences between trading as a sole trader or as a limited company. The paper should evaluate matters to be considered including but not limited to the following:

- Deductible v disallowed expenditure
- Badges of Trade
- Duty to notify chargeability to tax
- National Insurance and VAT implications
- Consequences of working from home or renting premises

Your paper also needs to include advice in respect of the consequences of operating as a close company.

(12 marks)

b) As a separate exercise, the tax partner has also asked you to prepare relevant calculations in respect of the A & B group (see below) and advise on the tax liability and any relief available for unrelieved foreign tax.

A Limited and its 100% subsidiary have the following results for 31 March 2011:

	A Ltd	B Ltd
Trading profits	(£30,000)	£80,000
Overseas royalties (gross before withholding tax of 15%)	£16,000	
Chargeable gains	£2,000	£1,000

You are required to provide advice (and supporting calculations) as to the available options for loss relief and any other reliefs available.

(13marks)

(Total 25 marks)

END OF QUESTIONS

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