

UNIVERSITY OF BOLTON
BUSINESS AND CREATIVE TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2010/2011
ADVANCED TAXATION
MODULE NO: ACC3008

Date: Friday 3rd June 2011

Time: 14:00 – 17:00

INSTRUCTIONS TO CANDIDATES:

There are five questions on this paper.

Answer FOUR questions.

All questions carry equal marks.

The recommended textbook may be referred to in the exam. No additional materials are permitted in the exam room.

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Q1 Jane made the following disposals of assets during the tax year 2010/11:

- 30 April 2010 – investment property for £150,000 less costs on disposal £1,280. Acquired for £79,500
- 17 June 2010 – part of a plot of land for £35,000. Costs of disposal were £700. Original cost of the whole plot was £54,000. The value of the remainder was £70,000
- 2 July 2010 – 10,000 shares for £42,000 which had been acquired as follows:
 - 6,000 shares for £21,000 on 1 July 2001
 - 2,000 shares for £6,500 on 14 December 2006
 - 4,000 shares for £16,000 on 11 July 2009
- 1 March 2010 – an antique clock which was smashed when her daughter dropped it on the floor. It had cost £12,000. Insurance proceeds were £20,000 received on 30 September 2010. Jane bought a new clock as a replacement for £17,000 on 21 December 2010

Requirement

- a) Calculate Jane's capital gains tax payable for the year 2010/11
(20 marks)
- b) Jane is also a sole trader. She acquired a freehold warehouse for use in the business in May 2003 for £40,000 and sold it in August 2010 for £80,000.

She is considering buying a new warehouse. She has located one which seems suitable and would cost £72,000.

Advise on the tax consequences of buying this shop

(5 marks)

(Total 25 marks)

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Q2 Mary purchased a property in England on 1 August 1987 for £40,000 and lived in it until 31 May 1988 when she moved overseas to take up the offer of employment. She returned to the UK on 1 August 1992 and took employment in Scotland until 31 October 1998. During these periods, she lived in rented accommodation. On 1 November 1998, she moved back into his own house until she moved out permanently on 30 June 2001. The house was then put up for sale and finally sold on 30 November 2009 for £120,000. At all times when Mary was not in the house, it remained empty.

Mary's husband, John made the following disposals of assets during the tax year 2010/11:

2 June 2010 – an oil painting for £5,000 (net of £400 commission). He had purchased this at a cost of £11,500

1 February 2011 – a crystal chandelier for £7,500. He had purchased this for £4,000

Requirement

a) Advise Mary as to the periods of exemption and no-exemption together with the reasons where applicable. Calculate the capital gains tax liability for the disposal.

(15 marks)

b) Calculate John's chargeable gains or allowable losses on these two transactions. Assuming he has **no** other gains and has used up her basic rate band due to her income of £100,000, advise John as to the capital gains tax liability and due date for payment.

(10 marks)

(Total 25 marks)

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Q3 Spy Ltd owns the following holdings in ordinary shares in other companies, all of which are UK resident:

PEB Ltd	83%
JE Ltd	77%
SM Ltd	67%
CB Ltd	80%
TE Ltd	70%

In each case, the conditions for claiming group relief, where appropriate, are satisfied.

The following are the results of the above companies for the year ended 31 March 2011.

Income	SPY Ltd £	PEB Ltd £	JE Ltd £	SM Ltd £	CB Ltd £	TE Ltd £
Trading profit	20,000	0	64,000	260,000	0	70,000
Trading loss	0	226,000	0	0	8,000	0
Property business income	0	6,000	4,000	0	0	0
Gift aid donation paid	4,000	4,500	2,000	5,000	0	0

Requirement

- Compute the corporation tax payable for the above accounting period by each of the above companies, assuming group relief is claimed, where appropriate, in the most efficient manner
 (20 marks)
- Advise the board of SPY Ltd of the advantages of increasing its holding in CB Ltd, a company likely to sustain trading losses for the next two years before becoming profitable. SPY Ltd itself is only likely to become profit making after the next few years.
 (5 marks)

(Total 25 marks)

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Q4 Arnold died on 20 December 2010. He made the following gifts during his lifetime:

Date	£	Recipient
15.12.02	60,000	Daughter
21.1.05	377,000	Discretionary trust (he paid the IHT)
20.8.06	46,000	Son
19.6.08	106,000	Discretionary trust (he paid the IHT)
1.8.09	73,000	Cousin
1.8.09	200,000	Wife

Requirement

- a) Calculate all amounts of IHT due during Arnold's lifetime and then on death. Assume the nil rate band has always been £325,000.
 (15 marks)

- b) Advise whether your answer would have been different if his wife had not been UK domiciled.
 (3 marks)

- c) Arnold's cousin has asked you for advice on his IHT position in relation to some gifts which he wishes to make. He wants to give £50,000 each to his own son and daughter and to transfer £350,000 of his own money into a discretionary trust for his grandchildren. His daughter is widowed but he thinks that she may remarry in the next few months. He has not made any other gifts in his lifetime. How would you advise him?
 (7 marks)

(Total 25 marks)

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Q5

a) You are a tax adviser and the following clients have asked you for written advice on their tax status for 2010/11:

- i. William was born in South Africa and lived there until he moved to the UK on 12 June 2010, where he remained until 18 April 2011 when he moved to France.
- ii. Patrice was born in Canada and moved to the UK in 1996. He left for New Zealand on 12 June 2010 and returned to the UK, where he intends to live permanently on 19 April 2011.
- iii. Joanna was born in the UK and lived in the UK until 10 February 2010 when she moved to Switzerland. She returned to live permanently in the UK on 18 April 2011.

(9 marks)

b) Another client, Bridge Limited is considering expanding its operations into Limalia, a low tax jurisdiction. It is considering shifting profits from the UK to Limalia to avoid high rates of corporation tax. The financial controller remembers from her studies that there are some rules about both the transfer of profits and also control from the UK. She has asked if you would advise on the tax implications of the proposed expansion and also advise if a more suitable way is appropriate.

(16 marks)

(Total 25 marks)

END OF PAPER