

**UNIVERSITY OF BOLTON**  
**FACULTY OF WELL-BEING AND SOCIAL**  
**SCIENCES**  
**ACCOUNTANCY PATHWAY**  
**SEMESTER 1 EXAMINATIONS 2011/2012**  
**ADVANCED TAXATION**  
**MODULE NO: ACC 3008**

Date: Thursday 19<sup>th</sup> January 2012

Time: 10:00 – 13:00

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**INSTRUCTIONS TO CANDIDATES:**

Please note that this is an open book examination. You may refer to a clean copy of the recommended text.

You are **NOT ALLOWED** to bring any other information or notes into the examination room.

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

Answer **FOUR** questions ONLY.

Each question carries equal marks.

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Accountancy Pathway  
Semester 1 Examination 2011/12  
Advanced Taxation  
Module no: ACC3008

**Question 1**

Jim Bean has asked you to advise him of the capital gains tax implications and how any available reliefs made be obtained in respect of the disposals which he made in the tax year 2011/12:

On 21 April 2011, Jim sold a freehold office building for £246,000. He had bought it on 3 January 1990 for £104,000. He has made a claim to roll over the gain on the office building against the replacement cost of the new building which he acquired in January 2011 for £136,000. Both offices have been the main place of trade for his business as a sole trader.

On 26 May 2011, he incorporated a retail business that he had run as a sole trader since 1 June 2009. The market value of the business was £200,000. All of the business assets were transferred to a new limited company with the consideration consisting of 140,000 £1 shares valued at par and £60,000 in cash. The only chargeable asset of the business was goodwill which was valued at £120,000 (nil cost) on 26 May 2011.

On 17 August, Jim made a gift to his daughter of his entire shareholding in an unquoted trading company. Market value at that date was £160,000. He had bought the shares on 8 January 2011 for £112,000. On the date of the gift, the market value of the chargeable assets of the company was £180,000 and of that £150,000 was in respect of chargeable business assets.

On 3 October 2011 an antique vase owned by Jim was destroyed in a fire. The vase had been bought in November 2010 for £49,000 and he received insurance proceeds of £68,000 for it in December 2011. In the same month, he paid £69,500 for a replacement antique vase.

On 9 March 2012 Jim sold 10 acres of land for £85,000. He had originally bought a 20 acre plot in June 2003 for £120,000. The market value of the unsold part was £65,000 at March 2012. He has never used the land for business purposes.

Advise Jim as to the capital gains tax liability arising in 2011/12 together with any available reliefs.

**(25 marks)**

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**Question 2**

Jane has been trading for a number of years and built up a conglomerate of business interests (group structure is Parent company with three subsidiaries, A Ltd, B Ltd and C Ltd). She has recently appointed your firm have recently been appointed as tax advisers and she is seeking advice in respect of several matters. The tax partner has asked you to draft a memo addressing the following matters:

- a) A Limited bought an office block to use in its business in August 1992 for £100,000. In April 2011, the company sold the building for £300,000 and at the same time is thinking about buying another office block for use in its business. Jane is looking at three buildings. Assuming that some relief is available in respect of the replacement building, advise her as to the implications of each of the three following options: Building A - £380,000, Building B - £280,000, Building C - £180,000
- b) B Limited sold a warehouse that had been used exclusively for business purposes for £200,000 in November 2003, realizing a chargeable gain of £50,000. The company bought fixed plant for £240,000 in November 2003. The company made an election to defer the gain on the warehouse against the fixed plant. Advise how the held over gain will be treated (assuming current tax rules still apply) if:
- i) B Limited sells the fixed plant in January 2012
  - ii) B Limited sells the fixed plant in April 2015
  - iii) B Limited bought another warehouse for business use in December 2004 and elected to transfer the deferred gain on the fixed plant to the new warehouse which cost £220,000
  - iv) the new warehouse in part iii) cost £185,000
- c) The shareholdings in each of the three companies is as follows: Jane Limited (holding co.) owns 100% of A Limited, 60% of B Limited and 80% of C Limited.

A Limited had PCTCT of £240,000 for 30 June 2011 and taxable total profits of £90,000 for 30 June 2012.

B Limited had taxable total profits of £64,000 for 31 March 2011.

C Limited commenced trading on 1 January 2012 and had taxable total profits of £60,000 for the three months ended 31 March 2012.

Jane Limited incurred a trading loss of £200,000 for the year ended 31 March 2012. Advise Jane as to the maximum amount of relief available to each of the subsidiary companies in respect of 31 March 2012.

**(25 marks)**

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**Question 3**

Joanne died on 7 April 2011, leaving the following estate:

	£
20% interest in X Ltd, an unquoted private company	125,000
Freehold interest in land used by X Ltd	35,000
Shares in A plc, a quoted company (<1% holding)	15,000
Other property (net)	312,500

Three years before her death, Joanne had transferred a 15% interest in the shares in X Ltd to her daughter, Rachel. Joanne has made no other transfers but has used all her annual exemptions. Her daughter has retained the interest in X Ltd which at the date of the gift was valued at £40,000 and on Joanne's death was worth £280,000.

Joanne's daughter has asked you to calculate the IHT due on Joanne's death.  
**(12 marks)**

Rachel has a substantial estate of her own, having been particularly successful in her business. She estimates the estate to be worth £680,000 including the shares that she received from her mother three years ago. She expects to be the main beneficiary of her mother's estate and as such, her own death estate could be very heavily taxed.

She is married and has three children, one of whom is due to be married himself soon. She has requested your advice as to matters to be taken into consideration when considering mitigating the potential IHT on her estate.

She has not used any exemptions, nor has she made any gifts to date.  
**(13 marks)**

**(Total 25 marks)**

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**Question 4**

You are a tax senior and the tax partner in your firm has asked that you provide briefing notes for a meeting with a new client.

This client has recently commenced in business and has heard that VAT registration could be worthwhile and make his business more credible. The partner has asked if you could look into this and provide a schedule of issues to be considered if indeed it is appropriate for the client to register for VAT.

The client operates in both the UK and Europe and has heard that it is possible for him to **not** report the profits which he makes in France on his UK tax return.

The partner has asked you to write a memo to him outlining issues to be considered for a client operating in both UK and overseas and explain whether or not it is possible to “move profits” out of the UK if the overseas jurisdiction has more favorable tax treatment.

**(25 marks)**

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**Question 5**

T Rex Ltd is the holding company for a group of companies. The results of each group company for the year ended 31 March 2012 are as follows:

	Tax adjusted trading profit / (loss)	Income from property	Franked Investment Income
	£	£	£
T Rex Ltd	450,000	5,000	20,000
Scelidosaurus Ltd	65,000	15,000	
Apatosaurus Ltd	85,000		
Triceratops Ltd	100,000		
Stegosaurus Ltd			
Bronchiosaurus Ltd	60,000		5,000
Pterodactyl Ltd	(200,000)		

T Rex Ltd owned 100% of each subsidiary company's ordinary share capital throughout the year ended 31 March 2012 with the following exceptions:

- 1) T Rex Ltd only owned 90% of Scelidosaurus Ltd OSC
- 2) T Rex Ltd disposed of its shareholding in Apatosaurus Ltd on 31 December 2011. Its trading profit is for the year to 31 March 2012.
- 3) T Rex Ltd's shareholding in Triceratops Ltd was acquired on 1 January 2012. The trading profits of £100,000 was for the year ended 31 March 2012.
- 4) Stegosaurus Ltd was a dormant company throughout the year ended 31 March 2012.

You have been asked to advise whether group relief can be claimed, explaining the group relationship that must exist. Your advice should also cover the implications of associated companies and identification of any within the group.

- a) Assuming that group relief is available in this scenario, advise the most favourable order of loss planning for the T Rex Group.
- b) You have also been asked to provide advice as to the implications of another company joining the group part way through the year. This potential acquisition has a year end of 30 June.

**(Total 25 marks)**

**END OF PAPER**