

ICAEW Partner in Learning

ACA TUTOR CONFERENCE 2018

Tax Compliance

How we mark

Questions and model answers

1. Sherazi LLP, a firm of ICAEW Chartered Accountants, recently tendered for tax compliance and advisory work for Javadi Ltd, a marketing company.

Sherazi LLP has received notice that the tender was successful. The partners in the firm are pleased as they already have another marketing company, Higgins Ltd, as a client and the firm intends to become specialists in this business sector.

Requirements

- 1.1 Identify the fundamental principles that are threatened if Sherazi LLP accepts Javadi Ltd as a client, and set out the safeguards that can be put in place to manage the threats to those fundamental principles. **(4 marks)**
- 1.2 Assuming the threats are sufficiently reduced, explain any other steps Sherazi LLP should take before accepting Javadi Ltd as a client. **(3 marks)**

Total: 7 marks

1.1	Marks
<p>The fundamental principles threatened by Sherazi LLP accepting Javadi Ltd as a client are objectivity and confidentiality. <i>(if see other fps then ok unless all are listed then 0)</i></p> <p>Sherazi LLP should:</p> <ul style="list-style-type: none"> • <u>Notify (both)</u> Higgins Ltd and Javadi Ltd of the potential conflict in acting for them both. 0.5 • Obtain <u>consent</u> from each party to act for both. 0.5* • If consent is <u>not obtained then</u> Sherazi LLP should not accept Javadi Ltd as a client. <i>(then not accept or don't work for both or resign)</i> 0.5* • Assuming consent is obtained, use <u>separate engagement teams</u> for each client. 0.5 • Apply procedures to <u>prevent access to information</u> (physical separation of teams, secure data filing). <i>(Chinese walls) 1/2 can be for an example of preventing access eg passwords</i> 0.5 • Issue clear <u>guidelines</u> to the engagement teams/ provide <u>training</u> on issues of security and confidentiality. 0.5 • Use <u>confidentiality agreements</u> for employees and partners. 0.5 • Arrange a regular review of safeguards by a senior <u>individual not involved</u> in either engagement. <i>(second partner review/ external review)</i> 0.5 	<p>2 x 0.5</p>
<p><i>*If simply state if no consent then don't accept – gets these 2 x 1/2</i></p>	
<p>Total possible marks</p>	<p>5</p>
<p>Maximum full marks</p>	<p>4</p>

- 4.1 Mathison Ltd is a trading company with one wholly owned subsidiary, Galvez Ltd, an investment company.

For the year ended 31 March 2017, Mathison Ltd had a tax-adjusted trading profit of £980,000. In addition the company had interest receivable on debentures of £20,000 which included £3,000 received on 3 April 2017.

On 1 November 2016 the company paid both a donation of £2,600 to a UK-political party and a qualifying donation of £4,500 to a UK-registered charity.

At 1 April 2016 the company had a trading loss brought forward of £37,200.

Capital disposal

On 10 January 2017 Mathison Ltd sold the entire holding of shares in Galvez Ltd for £400,000.

Mathison Ltd purchased the shares for £150,000 in August 2008.

The sale of the shares does not qualify for the substantial shareholding exemption.

At the date of the share sale, Galvez Ltd owned an investment property that it purchased from Mathison Ltd in April 2014 for £200,000, when the market value of the property was £340,000. Mathison Ltd purchased the property for £60,000 in June 1990.

Requirements

- (a) Calculate the degrouping charge arising as a result of transactions relating to Galvez Ltd. (2 marks)
- (b) Calculate Mathison Ltd's corporation tax payable for the year ended 31 March 2017. (7 marks)

Notes: RPI for January 2017 is 265.5.
Ignore VAT and stamp taxes.

4.1a		Marks
	£	
Degrouping charge		
Sale proceeds (market value at transfer)	340,000	0.5
Less cost	(60,000)	0.5
Less indexation allowance	$\frac{255.7 - 126.7}{126.7} = 1.018 \times \text{£}60,000$ (61,080)	1*
	218,920	
*1 mark for £61,080 or ½ for £61,089 (i.e. unrounded) AON		
If any additional indexation then lose this 1 mark		
Total possible marks		2
Maximum full marks		2



4.1b		Marks
	£	
Tax-adjusted trading profit	980,000	0.5
Less trading loss brought forward	(37,200)	0.5
	942,800	
Non-trading loan relationship	20,000	1
Chargeable gains (W)	435,564	0.5*
Less QCD (1/2 for not including deduction of £2,600 re political party)	(4,500)	0.5 + 0.5
Taxable total profits	1,393,864	
Corporation tax payable @ 20%	278,773	0.5
WORKING		
Gain on sale of Galvez Ltd	£	
Sale proceeds	400,000	0.5
Add degrouing charge (a)	218,920	1
	618,920	
Less cost	(150,000)	0.5
	468,920	
Less indexation allowance (no rounding)	$\text{£}150,000 \times \frac{265.5 - 217.2}{217.2}$ (33,356)	1**
	435,564	
*lose if give SSE – told in qu that does not qualify (investment co)		
** 1 mark for £33,356 or ½ for £33,300 (i.e. rounded)AON		
Total possible marks		7
Maximum full marks		7