

PROFESSIONAL LEVEL EXAMINATION

TUESDAY 4 DECEMBER 2018

(2½ HOURS)



TAX COMPLIANCE

This exam consists of **five** questions (100 marks).

Marks breakdown

Question 1	7 marks
Question 2	13 marks
Question 3	25 marks
Question 4	15 marks
Question 5	40 marks

1. Please read the instructions on this page carefully before you begin your exam. If you have any questions, raise your hand and speak with the invigilator before you begin.
2. Please alert the invigilator immediately if you encounter any issues during the delivery of the exam. The invigilator cannot advise you on how to use the software. If you believe that your performance has been affected by any issues which occurred, you must request and complete a candidate incident report form at the end of the exam. This form must be submitted as part of any subsequent special consideration application.
3. Click on the **Start Exam** button to begin the exam. The exam timer will begin to count down. A warning is given five minutes before the exam ends. When the exam timer reaches zero, the exam will end. To end the exam early, press the **Finish** button.
4. You may use a pen and paper for draft workings. Any information you write on paper will not be read or marked.
5. The examiner will take account of the way in which answers are structured. Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature. A student survey is provided post-exam for feedback purposes.
6. Ensure that all of your responses are visible on screen and are not hidden within cells. Your answers will be presented to the examiner exactly as they appear on screen.

Assume that the Finance Act 2017 rates and allowances as set out in the ICAEW Learning Materials for exams in 2018 will continue to apply in 2017/18 and future years unless you are specifically instructed otherwise.

Question 1

Morgan is a member of ICAEW. Several years ago he received a large inheritance on the death of his father Tim. This included a substantial bank account balance.

Tim had always declared the income from this bank account on his personal tax returns.

Morgan was a joint executor of Tim's will and although Morgan was aware of the bank account, the other executor was not.

The bank account was not included on the inheritance tax account submitted by the executors to HMRC. Morgan also failed to declare the substantial income arising on the inherited bank account over the next few years.

In order to save income tax on dividends, Morgan transferred some shares into an individual savings account (ISA).

Requirements

- 1.1 Explain whether Morgan's actions relating to both the bank account and the shares are considered tax planning, tax avoidance or tax evasion by HMRC. **(3 marks)**
- 1.2 Explain the type of threat to the fundamental principles that is faced by Morgan as executor and beneficiary of Tim's will. Identify three of the fundamental principles that are threatened. **(2 marks)**
- 1.3 Explain what is meant by the 'tax gap' and how it arises. Explain how HMRC may use existing information and data analytics in this scenario. **(2 marks)**

Total: 7 marks

Question 5.2

Byron works for Heywood Ltd as a legal executive. For 2017/18 he received the following employment package:

- Salary of £52,000.
- A loan of £50,000 with interest charged at 1.5% pa. Byron has not repaid any capital since he took out the loan on 1 July 2017.
- Byron uses his own car for work and is paid 50p per business mile by Heywood Ltd. He travelled 14,000 business miles during 2017/18.
- On 6 April 2017 Heywood Ltd sold a bicycle to Byron for £70, when it was worth £320. Byron had been provided with the bicycle for the previous two years. It had cost Heywood Ltd £1,880 in April 2015.
- Pension contributions into Byron's personal pension scheme of £1,500 by Heywood Ltd. Byron also contributed £2,600 into the scheme.

Byron paid subscriptions of £190 to the Chartered Institute of Legal Executives, which is on HMRC's list of approved professional bodies.

During 2017/18 Byron's other sources of income were:

- Interest received of £750 from his bank deposit accounts
- Dividend income of £6,500
- Income from a buy-to-let property

Byron's rental income from the buy-to-let property is £5,000.
His costs in relation to the property are:

	£
Replacement of old fridge	800
Management fees	400
Loan interest	1,000

The old fridge was sold for £20 and replaced with a fridge-freezer. To replace the fridge with an equivalent product would have cost £500.

Requirements

- (a) Calculate Byron's employment income for 2017/18. **(7 marks)**
- (b) Calculate the Class 1 primary national insurance contributions payable on Byron's earnings. Assume that all income is accrued evenly throughout the year. **(4 marks)**
- (c) Calculate Byron's income tax liability for 2017/18. **(9 marks)**

Total: 20 marks

Note: The official rate of interest for 2017/18 is 2.5%

Question 5.3

Blaine has been trading for several years and has annual trading profits of approximately £90,000. She has no other sources of income.

She will acquire a new car for her own use, but is unsure whether to purchase the car or to lease it. The car will be used 60% for business purposes. The car that Blaine wants has CO₂ emissions of 147g/km.

Blaine expects the actual purchase price of the car to be £23,000. She anticipates that if she buys the car, she would sell it for £10,000 after three years.

For the same car, Blaine was quoted a lease price of £310 per month over a three-year period. Blaine would then return the car to the lessor at the end of the three-year period.

Irrespective of the option selected, Blaine will pay for all maintenance costs and fuel.

Requirement

Calculate the after-tax cost to Blaine, for a three-year period, of acquiring the car. Prepare calculations for both

- purchasing the car; and
- leasing the car.

Total: 5 marks

Note: Ignore VAT