

MARK PLAN AND EXAMINER'S COMMENTARY

The marking plan set out below was that used to mark this paper. Markers were encouraged to use discretion and to give credit where a point was either not explained fully or made by implication. More marks were available than could be awarded for some requirements. This allowed credit to be given for a variety of valid points which were made by candidates.

Question 1**Total Marks: 7**

General comments

1.1	Marks
Tax evasion is <u>illegal</u> . It is where a taxpayer <u>deliberately (knowingly/ purposefully)</u> misleads HMRC by either	2 x 0.5
<ul style="list-style-type: none"> • <u>Suppressing</u> information to which HMRC is entitled; or (<i>hiding/ concealing</i>) • Providing HMRC with <u>deliberately false</u> information (<i>lying/ fraudulent</i>) 	0.5 0.5
Knowingly omitting the bank account from the IHT account and the interest from income tax returns is <u>tax evasion</u> . (<i>credit for identifying tax evasion re bank acc but lose if deem one element to be ok</i>)	1
Investing in an ISA is a form of <u>tax planning</u> ie <u>using tax reliefs for the purposes for which they were intended</u> . Tax planning is <u>legal</u> .	1+0.5+0.5
Neither the treatment of the bank account nor that of the shares is considered to be (aggressive) tax avoidance by HMRC.	0.5
Total possible marks	5.5
Maximum full marks	3

1.2	Marks
Morgan is facing a <u>self-interest threat</u> (<i>more than 1 then lose this ½</i>), as he is a beneficiary of Tim's will and benefits from non-disclosure because there will be a <u>reduction in his tax liabilities</u> (<i>evade tax</i>).	2 x 0.5*
The fundamental principles threatened in this scenario are <u>integrity, objectivity and professional behaviour</u> .	3 x 0.5
<i>*give the second half if the reduction in tax liability is referenced to his non-disclosure in either the IHT return or his personal tax return or just a general reduction in liability</i>	
Total possible marks	2.5
Maximum full marks	2

1.3	Marks
The tax gap is the difference between the total amount of taxes owed to the government and the actual amount received (<i>ie missing money expected v actual</i>).	1
The tax gap is created mainly as a result of <u>tax evasion</u> or <u>aggressive tax avoidance</u> ie tax payers understating their income and/ or overstating deductions.	2 x 0.5*
<u>Data analytics</u> (<i>either word linked to the next underline</i>) is the process of <u>examining data sets to draw conclusions</u> (<i>or identifying changes/ differences/ trends/ patterns</i>) about the information contained, for example whether income is understated on a tax return.	1
HMRC will be able to compare the information from the banks/ Tim's previous income tax returns with the income tax returns submitted by Morgan to identify the gap in income reported on his tax return.	1**
<p>*2nd ½ is for either including 'aggressive' or 'abusive' before tax avoidance or just clearly showing that tax planning is treated differently to tax avoidance</p> <p>**this mark is for application to the scenario ie how data analytics can identify the tax gap <u>in this situation</u></p>	
Total possible marks	4
Maximum full marks	2

5.2a	Marks
Employment income	£
Salary	52,000
Beneficial loan interest $\text{£}50,000 \times (2.5 - 1.5)\% \times \frac{9}{12} (938 - 563)$	375
Mileage allowance $14,000 \times 50\text{p}$	7,000
Less allowable deductions	
10,000 x 45p	(4,500)
4,000 x 25p	(1,000)
<i>2 marks for adding £1,500; 1.5 marks for deducting £1,500</i>	1,500
Transfer of bicycle (W1)	250
Pension contributions – er's exempt	-
<i>No adjustment for ees contributions</i>	
Less expenses	
Subscriptions	(190)
	53,935
Working - Transfer of bicycle	
<i>(For not doing a higher of computation)</i>	
Value at transfer	320
Less amount paid	(70)
<i>1 mark for any sight of £250; 1.5 marks if £250 is the only figure re <u>transfer</u> of the bike</i>	250
<p>*£500 = 2 x ½ ; £250 = ½ ; £188 = 2 x ½</p> <p>** beware of missing these 2 x 0.5</p>	
Total possible marks	7
Maximum full marks	7

5.2b		Marks
National insurance contributions	Class 1 earnings	
	£	
Salary	52,000	0.5*
Mileage allowance		
- Income (14,000 x 50p)	7,000	0.5
- Allowable expense (14,000 x 45p)(all at 45p for NIC)	(6,300)	1
	700	
	52,700	
Class 1 primary		
(£45,000 - £8,164) x 12%	4,420	2 x 0.5
(£52,700(OF) - £45,000) x 2%	154	2 x 0.5
First ½ above cannot be for equivalent of total employment inc ie £53,935	4,574	
<i>*for £52,000 and no spurious other income</i>		
Total possible marks		4
Maximum full marks		4

5.2c				Marks
Byron income tax liability for 2017/18	NSI	Savings	Dividend	
	£	£	£	
Employment income (a)	53,935			
Interest		750		0.5
Dividend income			6,500	0.5
Property income (W2)	3,370			
Net income	57,305	750	6,500	
Less personal allowance	(11,500)			0.5
Taxable income	45,805	750	6,500	
Non-savings income	(W1)	36,750 x 20%	7,350	0.5
		9,055 x 40%	3,622	
	45,805			
Savings income - HR taxpayer	500 x 0%		-	0.5
	250 x 40%		100	0.5
Dividend income	5,000 x 0%		-	0.5
	1,500 x 32.5%		488	0.5
			11,560	
Less tax deduction for finance costs (25% x £1,000 x 20%) (½ for deduct 20% x anything; extra ½ for £50)			(50)	2 x 0.5
Income tax liability			11,510	
WORKING				
(1) Basic rate band – pension contributions				
£33,500 + (£2,600 x 100/80) (1/2 for 100/80 of 'something' added to £33.5K; other half for correct)			£36,750	2 x 0.5
(2) Property income			£	
Rental income			5,000	0.5
Less:				
Replacement of fridge – equivalent (£500 - £20)			(480)	2 x 0.5
Management fees			(400)	0.5
Loan interest – restricted (£1,000 x 75%)			(750)	1
These finance costs are clearly lower than property income and adjusted total income				0.5
			3,370	
Total possible marks				9.5
Maximum full marks				9

5.3			Marks
Car purchase			
		£	
Cash cost (£23,000 - £10,000)		13,000	2 x 0.5
Income tax saving 40% × £7,800 (W1) (OF)	3,120		0.5
Class 4 NIC saving 2% × £7,800 (OF)	156	(3,276)	0.5
After tax cost of purchase		9,724	
 (W1) Deductible expenses – purchase of car			
Capital allowances (attempt at CAs)			0.5
(£23,000 - £10,000) × 60%		7,800	2 x 0.5
Own pool asset so over a period of time the WDAs and the BA will be based on the difference between cost and sale proceeds			
Car lease			
Cash cost of leasing for three years (£310 x 36)		11,160	0.5*
Income tax saving 40% × £5,692 (W2) (OF)	2,277		0.5
Class 4 NIC saving 2% × £5,692 (OF)	114	(2,391)	0.5
After tax cost of lease		8,769	
 (W2) Deductible expenses – lease of car			
Emissions in excess of 130g/km so			
£11,160 × 85% × 60% business use (marks are for this calc however used)		5,692	2 x 0.5
*½ for £11,160 and no deductions other than tax &/or NIC			
Total possible marks			6
Maximum full marks			5