

Unmarked scripts

Question 1 – student 1

	A	B	C	D	E	F	G	H	I	J	K
1											
2	Question 1										
3											
4	<p>1.1 Tax evasion is the action of deliberately misleading HMRC in order to pay less tax by either falsifying information, or not declaring income. By not declaring the existence of the bank account and then inheritance tax he received, Morgan is practising tax evasion.</p> <p>Tax avoidance, on the other hand, is legally arranging income so as to pay less tax by taking advantage of the system. By transferring some shares in his ISA, Morgan is practising tax avoidance.</p>										
5											
6	<p>1.2 Morgan is facing integrity and professional competence threats. Deliberately not declaring his taxable income is a self-interest threat as he gains from saving tax. As a member of the ICAEW, he is also deemed to respect HMRC's regulations and intentions, even if it is likely that HMRC will not legally sue him.</p>										
7											
8											
9	<p>1.3 The tax gap is the difference between the tax owed to HMRC and the amount recoverable from HMRC.</p>										
10											

Question 1 – student 2

	A	B	C	D	E	F	G	H	I	J	K
1	1.1										
2	Tax evasion in the eyes of HMRC is defined as the deliberate concealment or withholding of information in order to gain an unfair tax advantage, whereas avoidance is the lawful planning of one's tax affairs. In this case Tim has always declared his bank account information on his returns so it would appear that this is not an instance of evasion. It could be deemed evasion from Morgan's perspective as he was aware of the bank account and failed to account for it in the inheritance calculation. Morgan would have had the necessary information to know about the bank account balance and is also a chartered accountant so should know about these matters. This would constitute tax evasion in HMRC's eyes.										
3											
4	1.2										
5	Principles threatened: Professional competence and due care, as Morgan has shown he is not able to correctly complete the inheritance tax calculation despite having the necessary information. Objectivity, as Morgan is the executor of his own father's estate which he will undoubtedly be a benefactor of. Integrity, Morgan has not been upfront and honest regarding the bank balance.										
6	1.3										
7	The tax gap is the amount of tax that HMRC has received versus the amount it should have received. They use data analytics to get a good impression of how large the tax gap is, for example via analysis of PAYE received based on predictable factors like worker numbers etc...										
8											

Question 5.2(a) – student 1

	A	B	C	D	E	F	G	H
1	[5]							
2	[5.2]							
3	[a]							
4	Salary	52000						
5	Beneficial loan	375	Benefit = $1\% * 50000 * (9/12)$					
6	Mileage	1500	SMRS = $10000 * 0.45 + 4000 * 0.25 = 5500$, received = $14000 * 0.5 = 7000$					
7	Bicycle	1058	Higher: MV initially less private use benefit ($1880 - (376 * 2) - 70 = 1058$), and, MV now ($320 - 70 = 250$)					
8	Pension contributions	0	Employer's contribution is exempt. Relief given for Byron's contribution by extending rate bands.					
9	Subscriptions	-190						
10								
11	Employment income	54743						
12								

Question 5.2(a) – student 2

	A	B	C	D	E	F	G
1							
2	(A) employment income						
3							
4	Salary	52,000					
5	Loan (50,000 x (2.5-1.5)%)	500					
6	Car (0.5 x 14,000)	7,000					
7	Bicycle (1,880 - 70)	1,810					
8	Employer contribution	0					
9	Subscriptions - Allowable	0					
10		61,310					
11							

Question 5.2(b) – student 1

13	[b]									
		Class 1 primary paid by employee (Byron) on cash earnings.								
		For NICs, the mileage benefit is simply anything above 45p per mile, no reduction after 10000 miles. Hence, mileage benefit = $14000 \times (0.5 - 0.45) = 700$								
14		Total cash earnings = $52000 + 700 = 52700$								
		Class 1 NIC = $(45000 - 8164) \times 0.12 + (52700 - 45000) \times 0.02 = \text{£}4,574$								

Question 5.2(b) – student 2

13	(b) Class 1 NIC								
14									
15	$45,000 - 8164) \times 12\%$	4420							
16	$(62,310 - 45,000) \times 2\%$	346							
17	Payable	4766							
18									
19									

Question 5.2(c) – student 1

16	[c]						
17		NSI	SI	DI			
18	Employment income	54743					
19	Interest		750				
20	Dividends			6500			
21	Property income (W1)	3120					
22	Net income	57863	750	6500			
23	Personal allowance	-11500					
24	Taxable income	46363	750	6500			
25							
26	BRB extended to 36750						
27				Workings:			
28	Income tax:	NSI	7350	36750×0.2			
29			3845	$(46363 - 36750) \times 0.4$			
30		SI	0	500×0			
31			100	250×0.4			
32		DI	0	5000×0			
33			488	1500×0.325			
34	Income tax liability =		11783				

36	W1:			
37	Rent	5000		
38	Fridge replacement	-500		
39	Fridge sold	20		
40	Management fees	-400		
41	Loan interest	-1000		
42	Property income	3120		
43				
44	W2:			
45	Byron contributed 2600 into his personal pension scheme. Gross = $2600 \times (100/80) = 3250$ Extend BRB by 3250 = $33500 + 3250 = 36750$			

Question 5.2(c) – student 2

19					
20	(c) Income tax liability				
21		NSI	SI	Div	
22	Employment income	61,310			
23	Interest		750		
24	Dividend			6,500	
25	Buy to let property (w1)	2,820			
26		64,130	750	6,500	
27	Less Personal Allowance	(11,500)			
28		52,630	750	6,500	
29					
30	NSI				
31	BRB (Extended bands - w2)				
32	38,625 x 20%	7,725			
33	HRB - (52,630 - 38,625) x 0.4	5,602			
34	SI				
35	750 X 0%	0			
36	Dividend				
37	5000 x 0%	0			
38	1,500 x 32.5%	487.5			
39	Income tax payable	13,815			

43				
44	<u>Working 1</u>			
45	Replacement of old fridge - Rollover relief	(780)		
46	Management fees	(400)		
47	Loan interest	(1000)		
48	Rental income	5,000		
49		0		
50				
51				
52	<u>Working 2</u>			
53				
54	Grossed up contribution into PPS			
55	$(2,600 + 1,500) \times 100/80$	5,125		
56				
57	BRB: $33,500 + 5,125 = 38,625$			
58				

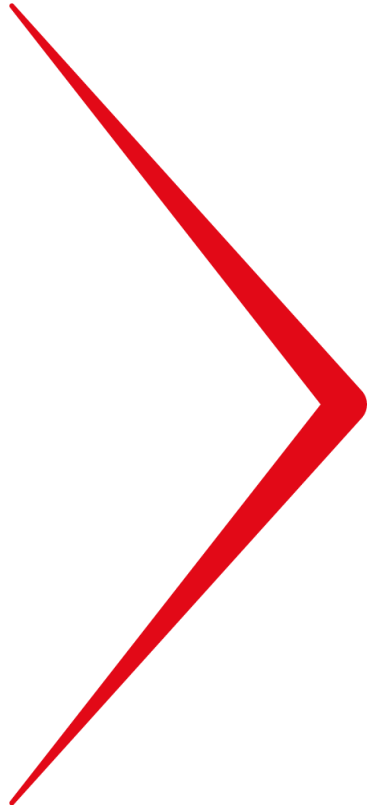
Question 5.3 – student 1

	A	B	C	D	E	F
1	5.3)					
2						
3	Purchase					
4						
5	W1	Private use asset	Allowance			
6		23,000		Tax saving @ 40%		
7	Year 1					
8	WDA @ 8%	(1,840)	* 60% 1,104	442		
9	Year 2	21,160				
10	WDA @ 8%	(1,693)	* 60% 1,016	406		
11	Year 3	19,467				
12	Disposal	(10,000)				
13		9,467				
14	Balancing allowance	(9,467)	* 60% 5,680	2,272		
15						
16			After tax cost	(3,120)		
17						
18	Sale will be exempt from capital gains tax under wasting chattel rules.					

20	Lease									
21	High emission car, therefore 15% of the lease costs is no tax deductible.									
22										
23		Lease cost allowable	$310 * 12 = 3,720 * 85\%$	Tax saving (40%)						
24	Year 1	3,162		1,265						
25	Year 2	3,162		1,265						
26	Year 3	3,162		1,265						
27			After tax cost	(3,795)						
28										
29	Therefore, the lease is preferable, as although the purchase of the car qualifies for capital allowances at special rate pool rates, the tax deductible amount for the cost of the lease is higher than that of the capital allowances for the purchase of the car, therefore saving more tax at the higher rate band of 40%.									
30										

Question 5.3 – student 2

	A	B	C	D	E	F	G	H	I
1	5.3)								
2									
3	<p>Purchasing car: Cost = 23000 Potentially reclaimed in 3 years = -10000 40% PU BIK: $23000 \times 28\% \times 40\% \text{PU} \times 3 \text{ years} = 7728$ Class 1 A: $7728 \times 13.8\% = 1066$ TOTAL COST: 21794</p> <p>Leasing car: $310 \times 36 \text{ months} = 11160$ Car >130g/km: $11160 \times 15\% \times 40\% \text{ (HRTP)} \times 3 \text{ years} = 2009$ BIK: $40\% \times 11160 \times 3 \text{ years} = 13392$ Class 1A: $13392 \times 13.8\% = 1848$ TOTAL COST: 28409</p> <p>Therefore Purchase and sell in 3 years.</p>								



Marked scripts

Question 1 – student 1

	A	B	C	D	E	F	G	H	I	J	K	▲
1												
2	Question 1											
3			✓ 1/2					✓ 1/2		✓ 1/2		
4	<p>1.1 Tax evasion is the action of deliberately misleading HMRC in order to pay less tax by either falsifying information, or not declaring income. By not declaring the existence of the bank account and then inheritance tax he received, Morgan is practising tax evasion. ✓ 1/2 ✓ 1/2</p> <p>Tax avoidance, on the other hand, is legally arranging income so as to pay less tax by taking advantage of the system. By transferring some shares in his ISA, Morgan is practising tax avoidance. ✓ 1/2</p> <p style="text-align: center;">✗</p>											
5			✓ 1/2							✓ 1/2		
✓ 1/2	<p>1.2 Morgan is facing integrity and professional competence threats. Deliberately not declaring his taxable income is a self-interest threat as he gains from saving tax. As a member of the ICAEW, he is also deemed to respect HMRC's regulations and intentions, even if it is likely that HMRC will not legally sue him.</p>											
6												
7												

Question 1 – student 2

	A	B	C	D	E	F	G	H	I	J	K	
1	1.1				✓ 1/2	✓ 1/2						
2	<p>Tax evasion in the eyes of HMRC is defined as the deliberate concealment or withholding of information in order to gain an unfair tax advantage, whereas avoidance is the lawful planning of one's tax affairs. In this case Tim has always declared his bank account information on his returns so it would appear that this is not an instance of evasion. It could be deemed evasion from Morgan's perspective as he was aware of the bank account and failed to account for it in the inheritance calculation. Morgan would have had the necessary information to know about the bank account balance and is also a chartered accountant so should know about these matters. This would constitute tax evasion in HMRC's eyes.</p>											✓ 1/2
4	1.2											
5	<p>Principles threatened: Professional competence and due care, as Morgan has shown he is not able to correctly complete the inheritance tax calculation despite having the necessary information. Objectivity, as Morgan is the executor of his own father's estate which he will undoubtedly be a benefactor of. Integrity, Morgan has not been upfront and honest regarding the bank balance.</p>											✓ 1/2
					✓ 1/2							

Question 5.2(a) – student 1

	A	B	C	D	E	F	G	H
1	[5]							
2	[5.2]							
3	[a]							
4	Salary	✓ 1/2	52000					
5	Beneficial loan	✓ 1/2	✓ 1/2	✓ 1/2	375	Benefit = 1% * 50000 * (9/12)		
6	Mileage	✓ 1/2	✓ 1/2	✓ 1/2	✓ 1/2	1500	SMRS = 10000*0.45 + 4000*0.25 = 5500, received = 14000*0.5 = 7000	
7	Bicycle				1058	Higher: MV initially less private use benefit (1880-(376*2)-70=1058), and, MV now (320-70=250)		
8	Pension contributions		✓ 1/2	✓ 1/2	0	Employer's contribution is exempt. Relief given for Byron's contribution by extending rate bands. ✓ 1/2 ✓ 1/2		
9	Subscriptions				-190			
10				✓ 1/2				
11	Employment income		54743					

Question 5.2(a) – student 2

	A	B	C	D	E	F	G	H	I	J	K
1											
2	(A) employment income										
3											
4	Salary	<input checked="" type="checkbox"/> 1/2 52,000									
5	Loan (50,000 x (2.5-1.5)%)	<input checked="" type="checkbox"/> 1/2 <input checked="" type="checkbox"/> 1/2 500									
6	Car (0.5 x 14,000)	<input checked="" type="checkbox"/> 1/2 <input checked="" type="checkbox"/> 1/2 7,000									
7	Bicycle (1,880 - 70)	1,810									
8	Employer contribution	0	<input checked="" type="checkbox"/> 1/2	<input checked="" type="checkbox"/> 1/2							
9	Subscriptions - Allowable	0									
10		61,310									
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Question 5.2(b) – student 1

12									
13	[b]								
	Class 1 primary paid by employee (Byron) on cash earnings.								
	For NICs, the mileage benefit is simply anything above 45p per mile, no reduction after 10000 miles.								
	Hence, mileage benefit = $14000 \times (0.5 - 0.45) = 700$								
14	Total cash earnings = $52000 + 700 = 52700$	✓ 1/2	✓ 1/2	✓ 1/2	✓ 1/2				
	Class 1 NIC = $(45000 - 8164) \times 0.12 + (52700 - 45000) \times 0.02 = £4,574$								
		✓ 1/2	✓ 1/2	✓ 1/2	✓ 1/2				

Question 5.2(b) – student 2

12									
13	(b) Class 1 NIC								
14		✓ 1/2	✓ 1/2						
15	$45,000 - 8164) \times 12\%$			4420					
16	$(62,310 - 45,000) \times 2\%$			346					
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Question 5.2(c) – student 1

16	[c]						
17		NSI	SI	DI			
18	Employment income	54743					
19	Interest			750	✓ 1/2		
20	Dividends					6500	✓ 1/2
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22	Net income	57863		750		6500	
23	Personal allowance	-11500	✓ 1/2				
24	Taxable income	46363		750		6500	
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26	BRB extended to 36750						
27	✓ 1/2	✓ 1/2		Workings:			
28	Income tax:	NSI		7350		36750×0.2	
29			✓ 1/2	3845		$(46363 - 36750) \times 0.4$	
30		SI	✓ 1/2	0		500×0	
31			✓ 1/2	100		250×0.4	
32		DI		0		5000×0	
33				488		1500×0.325	
34	Income tax liability =		✓ 1/2	11783			

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37	Rent	5000	✓ 1/2				
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44	W2:						
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Question 5.2(c) – student 2

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20 (c) Income tax liability									
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23 Interest		750	✓ 1/2						
24 Dividend				6,500	✓ 1/2				
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26	64,130	750		6,500					
27 Less Personal Allowance	✓ 1/2 (11,500)								
28	52,630	750		6,500					
29									
30 NSI									
31 BRB (Extended bands - w2)									
32 38,625 x 20%	7,725	✓ 1/2							
33 HRB - (52,630 - 38,625) x 0.4	5,602								
34 SI									
35 750 X 0% ✗	0								
36 Dividend									
37 5000 x 0%	0	✓ 1/2							
38 1,500 x 32.5%	487.5								
39 Income tax payable	13,815		✓ 1/2						




44	Working 1									
45	Replacement of old fridge - Rollover relief		(780)	✓ 1/2						
46	Management fees	✓ 1/2	(400)							
47	Loan interest		(1000)							
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51										
52	Working 2									
53										
54	Grossed up contribution into PPS									
55	(2,600 + 1,500) X 100/80		5,125							
56		✓ 1/2								
57	BRB: 33,500 + 5,125 = 38,625									

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27		After tax cost		(3,795)	<input checked="" type="checkbox"/> 1/2				
28									
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30									
31									

Question 5.3 – student 2

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