



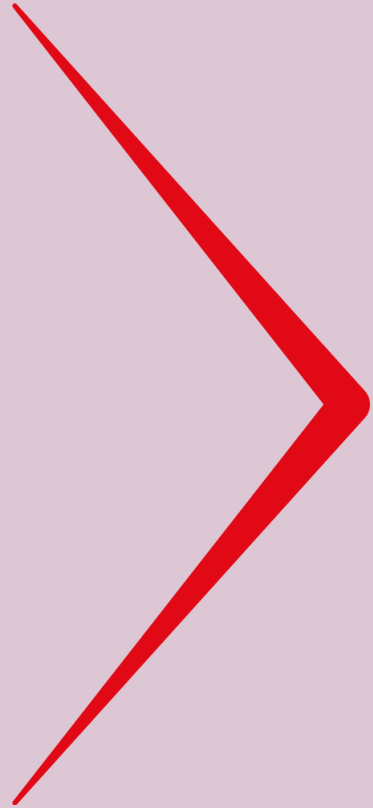
# ***ICAEW Partner in Learning***

ACA TUTOR CONFERENCE 2021

# ***Agenda***

- Generic information
  - Coronavirus
  - Brexit
  - Finance Acts for 2022 exams
- Principles of Taxation
  - 2021 exams
  - Syllabus
  - Tax tables
  - Notes on the LMs
- Tax Compliance
  - 2021 exams & syllabus
  - New content for FA 2020
  - Notes on the LMs
  - How we mark – December 2020
  - Other matters

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***Generic  
information***

# ***Coronavirus rules***

- Given the temporary nature of coronavirus related tax legislation the LMs for 2021 exams ignore them
- 2021 exams therefore require no knowledge of coronavirus related tax rules
- This includes the SDLT holiday due to expire on 31 March 2021
- For PoT students should ignore any measures related to the COVID-19 pandemic and answer all questions based on the standard rules as set out in the LMs

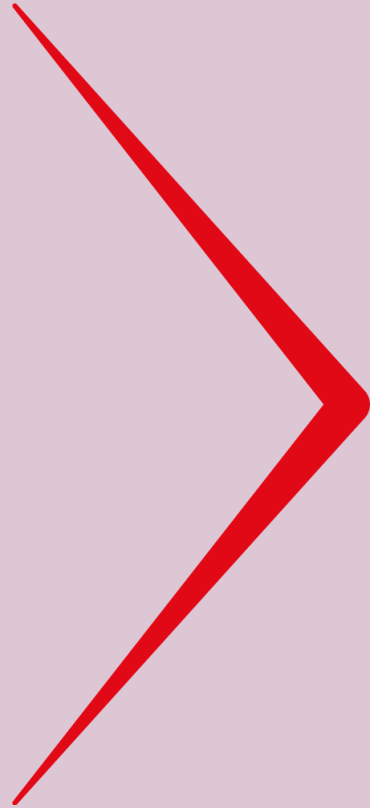
# ***Brexit***

- 2021 exams
  - VAT in an EU context in 2021 exams will not test transactions between the UK and EU Member States
- 2022 exams?
  - assumes that EU legislation is incorporated into UK law and status quo is maintained (as per European Union (Withdrawal) Act 2018 and European Union (Withdrawal Agreement) Act 2020)
- 2023 exams onwards?
  - significant if change basis of existing rules – eg VAT, customs duties, ethics, GDPR etc

# ***Finance Act for 2022 exams***

- ICAEW policy is we will only examine a Finance Act (as opposed to a Finance Bill)
- LMs for 2022 exams will go to print in August 2021
- LMs need to be written prior to August 2021
- Realistically we would need to be fairly sure that a Finance Act would be enacted by the end of July before we could start preparing material based on it
- Currently, Budget day is 3 March 2021. Expectation is that FA2021 will be short and will be enacted before summer recess
- However, under current rules Finance Bill must receive Royal Assent within 7 months of Ways & Means Resolutions being passed (normally within days of the Budget). With a March Budget that means Royal Assent could be as late as October 2021 which is too late for 2022 exams
- Expectation is that 2022 exams will be set on FA2021 assuming it is enacted (ie receives Royal Assent) by August 2021
- Exams are written before LMs go to print, exams will be amended to match whichever FAs exist by 31 July 2021

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***Principles of  
Taxation***

# ***PoT 2016-2021 syllabus weightings***

| SYLLABUS AREA                           | WEIGHTING |
|---|-----------|
| Objectives, types of tax & ethics       | 10%       |
| Administration of taxation              | 20%       |
| Income tax & NIC                        | 26%       |
| Capital gains tax / gains for companies | 10%       |
| Corporation tax                         | 14%       |
| VAT                                     | 20%       |



# ***Principles of Taxation – Tax tables***

- Tax tables are as per the LMs and are provided on screen
- Sourced from CCH Hardman's
- In sections as per the syllabus eg the income tax & NIC questions only access data relating to income tax & NIC

# ***Notes on the Learning Materials***

- New content is shaded grey
- Administration – for a number of years we tested ‘new’ penalty rules only regardless of HMRC’s implementation to date, however VAT surcharge rules and CT late filing penalties were reinstated in 2017
- Workbook – contains lots of OTQs for practice purposes for IT and CT even though in exam will be tested via scenario questions
- Question Bank – topics are examined exactly as they will be in live exam, IT topics which will be examined via scenario question will only be in the Question Bank as scenario questions

# ***Learning outcomes tested via scenario questions***

- IT & NIC scenario question
  - 3a – sources of taxable and non-taxable income
  - 3c – employment income
  - 3e – allowable or disallowable expenditure
  - 3j – total taxable income
- CT scenario question
  - 5b – impact of related 51% group companies on payment dates
  - 5c – allowable or disallowable expenditure & capital allowances
  - 5d – taxable total profits
- Will never appear as OTQs

# ***Learning outcomes tested via OTQs***

- Balanced per LOs for each syllabus area
  - For IT & NIC LFQ + 8 OTQs = 26%:
    - 3b – calculate PA or MA
    - 3d – badges of trade
    - 3f – partnerships
    - 3g – commence to trade
    - 3h – calculate taxable profits or CAs for a continuing trade
    - 3i – ceasing to trade
    - 3j – calculate IT liability
    - 3k – calculate NIC
  - For ethics, objectives & types of tax would be 3 ethics, 1 objectives & 1 types of tax OTQ
- Objective is to test the whole syllabus
- Use the PoT Workbook Appendix: “Suggested structure for Mock Exams in 2021”
- Each OTQ only tests a single syllabus area (eg admin or CT) so all possible answers must be from the same syllabus area

# ***New learning outcomes***

- None for 2021
- Continued delay to MTDfB means still very light touch in 2021 LMs

# ***2021 exams***

- FA 2020 is examinable from 1 January 2021 to 31 December 2021
- Devolved taxes are not examinable
- Format:
  - 1½ hour CBE on demand
  - 2 long-form ten-mark questions as Qs 1 and 2: one IT&NIC, one CT
  - 40 short-form two-mark OTQs as Qs 3-42
  - Syllabus content unchanged

# ***New content for FA2020***

- Company cars and fuel – rewritten (chapter 4, section 2.5)
- Annual social events – rewritten (chapter 4, section 2.9)

# ***Post FA2020 changes – AIA cap extension***

- AIA was due to revert from £1 million to £200,000 on 1 January 2021
- 12-month extension to the temporary £1 million cap announced after ICAEW LMs were written
- AIA will remain at £1 million during 2021 and reduce to £200,000 on 1 January 2022
- ICAEW tax learning materials use 1 January 2021 as the date at which the AIA changes to £200,000
- The following approach will be adopted in ICAEW PoT exams during 2021:
  - 2021 exam questions assume that the AIA is £200,000 pa. Students should answer questions in line with the examples and questions in the Principles of Taxation learning materials ie using the £200,000 cap. The learning materials include only accounting periods beginning on/ after 1 January 2021 and use the AIA cap of £200,000 pa.



# ***OTQs – styles***

- Only styles of OTQs are those in the LMs – ie if it's not in the LMs it won't be in the real exam
- No drag and drop, no drop down lists – so be careful if you're repurposing OTQs from other qualifications
- No superfluous information

# ***OTQs – styles***

- MCQ choose 1 from 4
  - Which of the following statements is true?
  - What is the latest date by which HMRC may make such corrections?
- MRQ choose 2 from 4/5 (or unusually 3 from 5)
  - Which two of the following statements are correct?
  - Which three of the following costs are...
- Matrix MRQ
  - two parts, choose 1 from 2/3 each time
  - two parts, choose 1 from 2 then choose 1 from 3
  - three parts, choose 1 from 2 each time (eg types of tax – direct/indirect)
  - lists may or may not be the same each time
- Numerical input (eg for input/output VAT or tapered PA)

# ***Plain English***

- Fewer words
- Short sentences
- Positive requirements (unless negative is unavoidable)
- Active sentences
- No homonyms, homographs or homophones – eg “draws up accounts” is now “prepares accounts”
- Use words consistently rather than synonyms – eg just use “prepare” rather than “prepare” or “make up” or “draw up” or “produce” or “devise”
- No colloquialisms – eg “ballpark figure”
- Match LMs – ie technical words
- Consider students for whom English is a second language

# ***Plain English – shorter sentences***

Select which one of the following options correctly identifies the amount of VAT that can be reclaimed in respect of the above.

becomes

How much VAT can be reclaimed in respect of the above?

# ***Plain English – positive requirements***

Which one of the following statements does NOT apply to the VAT annual accounting scheme?

becomes

Which one of the following statements is true in relation to the VAT annual accounting scheme?

# ***Plain English – active sentences***

£500 of new machinery was bought in January 2021 by James.

becomes

In January 2021 James paid £500 for new machinery.

# ***Terminology***

- Terminology in LMs is exactly as it will be in the real exam
- If you're writing additional questions, points to consider:
  - “Jasper receives the following amounts during 2020/21”  
(not “Jasper receives the following amounts during *the tax year* 2020/21”)
  - “taxable trading income” (not “trading income assessment”)
  - “trading profits” (not “assessable trading profits”)
  - “What are...” or “Which are...” (not “Which one of the following options represents...”)
  - “...has taxable income (after deducting any personal allowance) in 2020/21 of...”  
(not “...has taxable income in 2020/21 of...”)
  - Use the actual tax year rather than putting “in the current tax year”, we do in the exam, just accept that tax has to be updated every year

# ***Sample paper for 2021 exams***

- Q1 – IT & NIC – Elan
- Q2 – CT – Sigil Ltd
  
- Sample paper is available from PoT Study Resources within ICAEW Student website:
  - <http://www.icaew.com/en/qualifications-and-programmes/cfab/cfab-students/cfab-study-resources/principles-of-taxation-study-resources>
  
- Tutor resources are available from PoT Study Resources within ICAEW Tutor website:
  - <http://www.icaew.com/en/learning-and-development/partners-in-learning/resources-and-support/qualification-resources/aca-qualification/principles-of-taxation>



Elan received £100 interest income from a building society ISA during 2020/21.

Elan has been employed part-time by DEF Ltd for many years.

He received the following remuneration package in 2020/21:

- salary £21,000 per year;
- a bonus of £1,250 in respect of the year ended 31 March 2020, paid on 31 May 2020;
- mobile phone, costing DEF Ltd £240 per annum; and
- use of a petrol company car which was registered in 2019, has CO2 emissions of 102 g/km, and a list price of £20,000.

The company also paid for all of Elan's private fuel.

Elan received £112,000 of dividends in January 2021 from a UK company.

Elan has also run his own business as a sole trader for many years. Elan has calculated his taxable trading profits for 2020/21 to be £44,100. In arriving at his taxable trading profits, Elan deducted the following amounts:

- £1,200 written off as a bad debt because a customer has gone into liquidation;
- £50 parking fines incurred by an employee while visiting a customer;
- £600 in respect of entertaining clients at a summer party; and
- £50 paid to a local charity for which Elan received an advertisement for his business in the charity's newsletter.

### Requirement

Using the standard format below, compute Elan's taxable income for 2020/21. You should enter a number in each relevant box. If an amount is not taxable enter a zero or a dash into the relevant box.

#### Elan's total taxable 2020/21

|                        | Non-savings<br>income<br>£ | Savings<br>income<br>£ | Dividend<br>income<br>£ |
|------------------------|----------------------------|------------------------|-------------------------|
| Trading Income (W1)    | <input type="text"/>       |                        |                         |
| Employment income (W2) | <input type="text"/>       |                        |                         |
| ISA interest           |                            | <input type="text"/>   |                         |
| Dividends              |                            |                        | <input type="text"/>    |
| <b>Net income</b>      | <input type="text"/>       | <input type="text"/>   | <input type="text"/>    |
| Personal allowance     | <input type="text"/>       |                        |                         |
| <b>Taxable income</b>  | <input type="text"/>       | <input type="text"/>   | <input type="text"/>    |

#### Trading income

|                                     | £                    |
|-------------------------------------|----------------------|
| Trading profits                     | <input type="text"/> |
| Bad debt written off                | <input type="text"/> |
| Parking fine                        | <input type="text"/> |
| Entertaining clients                | <input type="text"/> |
| Donation to charity                 | <input type="text"/> |
| <b>Tax-adjusted trading profits</b> | <input type="text"/> |

Employment income

£

Salary

Bonus

Mobile phone

Car

Total employment  
income

Sigil Ltd, an unquoted trading company, prepares accounts to 31 March and has no related 51% group companies. The draft accounting profits for the year ended 31 March 2021 are £125,000. The following items have been added or deducted in arriving at the draft accounting profit:

|                             | Note | £      |
|-----------------------------|------|--------|
| Depreciation                |      | 6,300  |
| Loan interest payable       | 1    | 2,000  |
| Profit on disposal of asset | 2    | 12,000 |
| Exempt dividends received   | 3    | 4,000  |
| Bank interest receivable    |      | 5,000  |
| Employee loan interest      | 4    | 600    |

#### Notes

- Interest payable on a loan to buy a small shareholding in an unrelated company.
- Sigil Ltd sold an asset realising a profit on disposal of £12,000. The chargeable gain arising is £9,000.
- Exempt dividends of £3,000 received from unrelated UK companies and £1,000 received from unrelated German companies.
- Interest of £600 was received on a loan made to an employee in respect of the nine months from 1 April 2019 to 31 December 2020. The employee owed a further £200 in interest as at 31 March 2021.

In addition, the following item has not yet been included in the accounts:

- The company purchased a car for £20,000 on 1 July 2020 for use by the managing director. The car has emissions of 105 g/km and is used 30% for private purposes. The company has not previously owned any plant or cars.

#### Requirement

Using the standard format below, compute Sigil Ltd's taxable total profits for the year ended 31 March 2021. You should enter a number in each relevant box. If an amount is not taxable or no adjustment is required you must enter a zero or a dash into the relevant box.

|                              | £                    |
|------------------------------|----------------------|
| Trading Income (W1)          | <input type="text"/> |
| Non-trading loans            | <input type="text"/> |
| Dividends                    | <input type="text"/> |
| Chargeable gain              | <input type="text"/> |
| <b>Taxable total profits</b> | <input type="text"/> |

#### WORKING

| Trading income            | £                    |
|---------------------------|----------------------|
| Draft accounting profits  | <input type="text"/> |
| Depreciation              | <input type="text"/> |
| Loan interest payable     | <input type="text"/> |
| Profit on disposal        | <input type="text"/> |
| Exempt dividends received | <input type="text"/> |
| Bank interest receivable  | <input type="text"/> |
| Employee loan interest    | <input type="text"/> |
| Capital allowances        | <input type="text"/> |
| <b>Trading income</b>     | <input type="text"/> |

2.2) In the year ended 31 March 2022 Sigil Ltd expects taxable total profits of £213,000 and is expected to receive the same amount of dividends as in the year ended 31 March 2021.

### Requirement

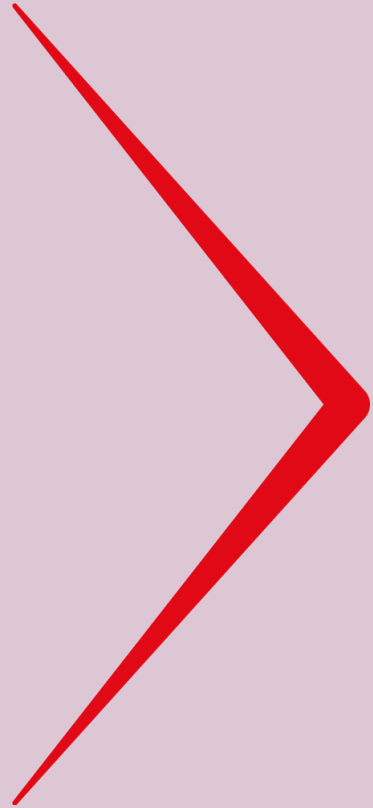
Complete all the boxes below and state the first date by which any corporation tax should be paid in relation to the year ended 31 March 2022. Input the date in the format DD/MM/YYYY (eg, 03/04/2021 for 3 April 2021).

|  | £                    |
|--|----------------------|
| Taxable total profits                          | <input type="text"/> |
| Exempt ABGH distributions                      | <input type="text"/> |
| <b>Augmented profits</b>                       | <input type="text"/> |
| Corporation tax due date for Y/E 31/03/2022 is | <input type="text"/> |

# ***Partial marks***

- Partial marks are available eg:
  - Car benefit working might be:
    - ½ mark = petrol %
    - ½ mark = 3% diesel supplement
    - ½ mark = using list price
    - ½ mark = prorating for availability
  - Capital allowances working might be:
    - ½ mark = allocating FYA to addition
    - ½ mark = allocating FYA in full – so not prorating for short AP
    - ½ mark = using WDA @ 18% for main pool
    - ½ mark = prorating main pool WDA for short AP

3



***Tax Compliance***

# ***TC 2016-2021 syllabus weightings***

| SYLLABUS AREA    | WEIGHTING |
|------------------|-----------|
| Ethics & law     | 5-10%     |
| Indirect taxes   | 10-15%    |
| Capital taxes    | 20-30%    |
| Corporation tax  | 15-20%    |
| Income tax & NIC | 35-45%    |

- NB syllabus weightings and marks allocated to that syllabus area's question are not the same
- EG – Ethics as Q1 is only 7 marks, but as syllabus weighting is up to 10%, could have up to 3 marks on ethics in other questions

# ***Format***

- 2½ hour exam delivered via four exam sessions per year
- Has been exclusively CBE from March 2017
- CCH Hardman's open book edition 1
- Five written questions for 100 marks (NB syllabus weightings are different):
  - Q1 Ethics & Law = 7 marks
  - Q2 Indirect taxes = 13 marks
  - Q3 Capital taxes = 25 marks
  - Q4 Corporation tax = 20 marks
  - Q5 Income tax & NIC = 35 marks



# ***Finance Act & devolved taxes for 2021 exams***

- March, June, Sept & Dec 2021 = Finance 2020
- Devolved taxes
  - Students are expected to be aware of the existence of devolved taxes
  - Numerical questions will not be set which test devolved rules
  - Individuals will not be a Scottish or Welsh taxpayer whenever a devolved tax could potentially apply
  - For stamp tax calculations, properties will be located in England

# ***New / amended learning outcomes***

- 2f. explain the VAT consequences of imports and exports of goods and services to and from VAT registered and non-VAT registered persons within and outside the UK (**excluding the EU**);
- 3b. describe the circumstances in which the following reliefs apply and calculate the effect of full or partial relief available in a given situation:
- letting relief
  - ~~principal~~ private residence relief
  - gift relief
  - rollover relief
  - ~~entrepreneurs'~~ business assets disposal relief
  - **investors' relief**;
- 4c. calculate trading profits or losses after adjustments and allowable deductions (including capital allowances on plant and machinery **and on structures and buildings**);

# ***New / amended learning outcomes***

- 5c. calculate trading profits or losses after adjustments and allowable deductions (including capital allowances on plant and machinery **and on structures and buildings**) using either the accruals basis or cash basis of accounting;

# ***New / amended content for FA2020***

- Money laundering – Economic Crime Strategic Board (ECSB) and Customer Due Diligence (CDC) added in
- Plant & machinery when ceasing to use the cash basis – rewritten
- Payment of CGT – rewritten
- Payments of CGT on disposals of UK residential property
- Revised lifetime limit for BADR
- £100,000 Class 1 Secondary NIC liability limit for companies claiming Employment Allowance for NIC
- Corporate Capital Loss Restriction (CCLR)

# ***Post FA2020 changes – AIA cap extension***

- AIA was due to revert from £1 million to £200,000 on 1 January 2021
- 12-month extension to the temporary £1 million cap announced after ICAEW LMs were written
- AIA will remain at £1 million during 2021 and reduce to £200,000 on 1 January 2022
- For the two Professional Level exams (TC and BP:T) the LMs include the £1 million cap and the £200,000 cap, plus the calculation that is required where an accounting period straddles the change (as anticipated on 1 January 2021)

# ***Post FA2020 changes – AIA cap extension***

- The following approach will be adopted in TC & BP:T exams during 2021:
  - For 2021 exams the questions will include plant and machinery additions eligible for AIAs only on or before 31 December 2020 (although the accounting period may fall both sides of that date). Students will not be required to perform a calculation of a maximum AIA where the accounting period straddles 1 January 2021. For example, if using an accounting period of the year ended 31 March 2021 the AIA additions will be less than £800,000 ( $(£1 \text{ million} \times 9/12) + (£200,000 \times 3/12)$ ) and all expenditure will be incurred before 31 December 2020
  - Students do not need to learn the paragraphs shaded grey in Chapter 7 section 2.5 of the TC workbook
  - Students will not be disadvantaged by using the AIA cap shown in their tax tables
  - The exams will not include any separate note regarding the AIA

# ***Notes on the Learning Materials***

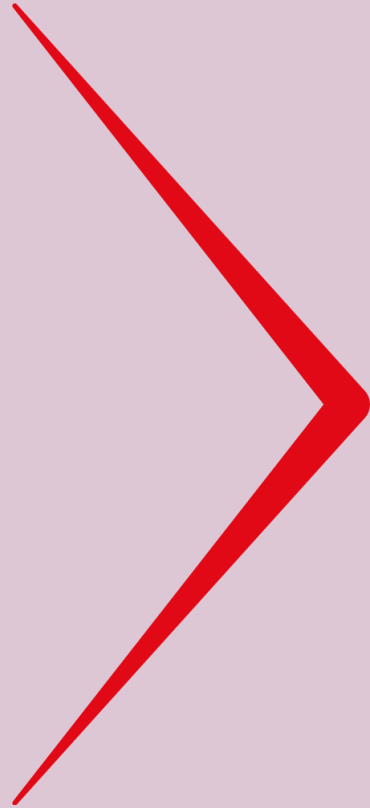
- New content is shaded grey
- Administration – for a number of years we tested ‘new’ penalty rules only regardless of HMRC’s implementation to date, however VAT surcharge rules and CT late filing penalties were reinstated in 2017

# ***Module resources***

- Past exam papers (not updated for FA changes) and other resources are available from TC Study Resources within ICAEW Tutor website:
  - <http://www.icaew.com/en/learning-and-development/partners-in-learning/resources-and-support/qualification-resources/aca-qualification/tax-compliance>



**4**



***Marking***

# ***Corporation tax***

- This is not an optional tax in the exam
- Learning this now gives greater chance of success  
ie you need 55% rather than 68.75% [55 out of 80 marks]
- Learning this now is good preparation for BP:T

# ***Question 4.1***

## **Requirements**

4.1 Calculate Tripp Ltd's corporation tax payable for the **15 months ended 31 March 2020**. (15 marks)

*(adjustment of profits; CAs for P&M; gain; NTLR; property income)*

# Typical student answer - 1 (4.1 – pt1)

|   |   |           |
|---|---|-----------|
| 1 | <b>Quesiton 4</b>                             |           |
| 2 | <b>Question 4.1 - Corporation tax payable</b> |           |
| 3 | Draft tax adjusted trading profits            | 700,000   |
| 4 | Profit on disposal of shares                  | (23,000)  |
| 5 | rental Income                                 | (30,000)  |
| 6 | Interest Recievable                           | (20,000)  |
| 7 | Interest Payable                              | 7500      |
| 8 | Capital Allowances (W1)                       | (353,236) |
| 9 | Tax adjusted trading profits                  | 281,264   |

|    |                      |         |
|----|----------------------|---------|
| 11 | Trrading profits     | 281264  |
| 12 | Rental income        | 30,000  |
| 13 | NTLR (20,000 - 7500) | 12500   |
| 14 | Disposal of Shares   | 23,000  |
| 15 |                      | 346,764 |
| 16 | Corpoation Tax @ 19% | 65885   |

# Typical student answer - 1 (4.1 – pt2)

| 21 Working 1 - Capital Allowances |                          |            |           |        |            |
|-----------------------------------|--------------------------|------------|-----------|--------|------------|
| 22                                |                          | FYA or AIA | main pool | SRP    | Allowances |
| 23                                | B/f                      |            | 100,000   | 24,000 |            |
| 24                                | Addition - FYA           | 31,000     |           |        |            |
| 25                                | FYA Allowance            | (31,000)   |           |        | 31,000     |
| 26                                | Addition - No FYA or AIA |            | 15,000    |        |            |
| 27                                | Addition - AIA           | 300,000    |           |        |            |
| 28                                | AIA Allowance            | (300,000)  |           |        | 300,000    |
| 29                                |                          |            | 115,000   | 24,000 |            |
| 30                                | SRP @ 6.4% (W2)          |            |           | 1536   | 1536       |
| 31                                | Main Pool @ 18%          |            | 20,700    |        | 20700      |
| 32                                | Total allowances         |            |           |        | 353,236    |
| 33 Working 2 - Special Rate       |                          |            |           |        |            |
| 34                                | 3/15x 8% =               | 1.6%       |           |        |            |
| 35                                | 12/15 x 6% =             | 4.8%       |           |        |            |
| 36                                |                          | 6.4%       |           |        |            |

# Typical student answer - 2 (4.1 – pt1)

|   |                     |                 |                |         |
|---|---------------------|-----------------|----------------|---------|
| 1 | 4.1 Corporation tax |                 |                |         |
| 2 |                     |                 |                |         |
| 3 |                     | 1/1/19-31/12/19 | 1/1/20-31/3/20 |         |
| 4 | Trading (cell B50)  | 151,940         | 120,923        |         |
| 5 | Gains               | 0               | 11,014         |         |
| 6 | Property            | 24,000          | 6,000          |         |
| 7 | NTLR                | 15,100          | 3,775          |         |
| 8 |                     | 191,040         | 141,712        |         |
| 9 | CT at 19%           | £36,298         | £26,925        | £63,223 |

# Typical student answer - 2 (4.1 – pt2)

|    |   |                 |                   |          |                |
|----|---|-----------------|-------------------|----------|----------------|
| 11 | W1- capital allowances                    | 1/1/19-31/12/19 |                   |          |                |
| 12 |   | main pool       | special rate pool | 100% FYA | Allowances     |
| 13 | TWDV                                      | 100,000         | 24,000            |          |                |
| 14 | 29/04/19 low CO2 car                      |                 |                   | 31,000   |                |
| 15 | FYA                                       |                 |                   | (31,000) | 31,000         |
| 16 | 20/12/2019 LLA                            |                 | 300,000           |          |                |
| 17 | AIA                                       |                 | (300,000)         |          | 300,000        |
| 18 | NEt                                       | 100,000         | 24,000            | 0        |                |
| 19 | WDA 18%                                   | (18,000)        |                   |          | 18,000         |
| 20 | WDA 6.5%                                  |                 | (1560)            |          | 1560           |
| 21 | TWDV cf                                   | 82,000          | 22,440            |          | <b>350,560</b> |
| 22 | AIA for 12 months to 31/12/19 = 1,000,000 |                 |                   |          |                |

# Typical student answer - 2 (4.1 – pt3)

|    |                           |           |     |        |             |
|----|---------------------------|-----------|-----|--------|-------------|
| 23 | rate for srp              |           |     |        |             |
| 24 | $3/12 \times 8\% = 0.02$  |           |     |        |             |
| 25 | $9/12 \times 6\% = 0.045$ |           |     |        |             |
| 26 | total = 6.5%              |           |     |        |             |
| 27 |                           |           |     |        |             |
| 28 | 3 months to 31 March 20   | main pool | srp |        |             |
| 29 | TWDV cf                   | 82,000    |     | 22,440 |             |
| 30 | 5/2/20 mrp car            | 15,000    |     |        |             |
| 31 |                           | 97,000    |     | 22440  |             |
| 32 | 3 month WDA               | (4365)    |     | (337)  | <b>4702</b> |



# Typical student answer - 2 (4.1 – pt4)

|    |                            |                 |                      |         |
|----|----------------------------|-----------------|----------------------|---------|
| 34 | W2- trading profits        |                 |                      |         |
| 35 | Draft                      | 700,000         |                      |         |
| 36 | Less: share gain           | (23,000)        |                      |         |
| 37 | Less: property income      | (30,000)        |                      |         |
| 38 | Less: interest receivable  | (20,000)        |                      |         |
| 39 | Add: property interest (w) | 1125            |                      |         |
| 40 |                            | 628,125         |                      |         |
| 41 |                            |                 |                      |         |
| 42 | property interest          |                 |                      |         |
| 43 | total                      | 7,500           | deducted             |         |
| 44 | Total property (15%)       | 1125            | add back             |         |
| 45 | Total trading (85%)        | 6375            | should have deducted |         |
| 46 |                            |                 |                      |         |
| 47 | draft time apportioned     | 1/1/19-31/12/19 | 1/1/20-31/3/20       |         |
| 48 | 628,125 x 12/15            | 502,500         | 125,625              | 628,125 |
| 49 | Capital allowances         | (350,560)       | (4,702)              |         |
| 50 | TTP                        | 151,940         | 120,923              |         |

# Typical student answer - 2 (4.1 – pt 5)

|    |                        |               |                        |
|----|------------------------|---------------|------------------------|
| 52 | NTLR                   |               |                        |
| 53 | interest receivable    | 16,000        | 4,000                  |
| 54 | interest payable       | (900)         | (225)                  |
| 55 |                        | 15,100        | 3,775                  |
| 56 |                        |               |                        |
| 57 | share disposal         |               |                        |
| 58 | No SSE as <10% holding |               |                        |
| 59 | proceeds               | 50,000        |                        |
| 60 | cost                   | (27,000)      |                        |
| 61 | IA                     | (11986)       |                        |
| 62 | total gain             | 11,014        |                        |
| 63 |                        |               |                        |
| 64 | IA                     | (278.1-192.6) | no rounding for shares |
| 65 |                        | 192.6         |                        |
| 66 | x cost 27,000          | 11,986        |                        |

# Typical student answer - 2 (4.1 – pt 5)

|    |                        |               |                        |
|----|------------------------|---------------|------------------------|
| 52 | NTLR                   |               |                        |
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| 62 | total gain             | 11,014        |                        |
| 63 |                        |               |                        |
| 64 | IA                     | (278.1-192.6) | no rounding for shares |
| 65 |                        | 192.6         |                        |
| 66 | x cost 27,000          | 11,986        |                        |

# ***Question 2.1***

## **Requirements**

- (a) Explain the VAT treatment of the computer equipment purchased from the USA. **(2 marks)**

*(cost £60,000 excl VAT)*

# Q2.1 model answer...clear wording

| 2.1a  | Marks |
|---|-------|
| VAT treatment of computer equipment   |       |
| Dante Ltd <u>pays</u> £12,000 ( $£60,000 \times 20\%$ ) to HMRC <u>at the point of entry</u> into the UK (at the port or airport). (VAT/ import duty is charged at point of entry into UK or VAT is due at customs on entry into UK)) | 1*    |
| This same amount ie £12,000 is then <u>recovered as input tax</u> on the company's VAT return for the quarter to 31 March 2020.   | 1*    |
| <i>ignore the words 'reverse charge'</i><br><i>*marks are for 'pay at point of entry' and any mention of input tax/ reclaim etc</i>   |       |
| Total possible marks  | 2     |
| Maximum full marks  | 2     |

# ***Student answer – 1 (Q2.1)***

|   | A  | B | C | D | E | F | G |  |
|---|--|---|---|---|---|---|---|--|
| 1 | 2.1)   |   |   |   |   |   |   |  |
| 2 | The purchases from the USA are classed as an import. Whne they arrive in the UK, they will be held at customs until the VAT has been paid and then the purchases will be released. Input VAT on the goods. |   |   |   |   |   |   |  |

# ***Student answer – 2 (Q2.1)***

|   |   |  |  |  |  |  |  |  |
|---|---|--|--|--|--|--|--|--|
| 1 | Q2  |  |  |  |  |  |  |  |
| 2 | 2.1   |  |  |  |  |  |  |  |
| 3 | A)<br>As the computer equipment has been purchased outside of the EU, it must be treated as the same VAT rules as the UK, therefore the VAT on the computer equipment from the US will be taxed at standard rate, therefore $60,000 \times 20\% = 12,000$ is payable on the computer equipment. |  |  |  |  |  |  |  |

# ***Student answer – 3 (most typical) (Q2.1)***

|   | A   | B   | C | D | E | F | G |
|---|-----|---|---|---|---|---|---|
| 1 | 2.1 | The computer equipment is charged at VAT standard rate and reclaimed at standard rate, therefore it is VAT neutral. |   |   |   |   |   |



# Student answer – 4 (Q2.1)

|   | A   | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| 1 | Question 2  |   |   |   |   |   |   |
| 2 |   |   |   |   |   |   |   |
| 3 | 2.1 -   |   |   |   |   |   |   |
| 4 |   |   |   |   |   |   |   |
| 5 | a -   |   |   |   |   |   |   |
| 6 | When importing goods from outside the EU, the supply is zero rated. However the customer pays import VAT at the border and if VAT registered (like Dante is) can reclaim this on their VAT return when paid. Therefore, £60,000 x 20% = £12,000 of import VAT will be paid and can be reclaimed by Dante. There is no reverse charge. |   |   |   |   |   |   |

# ***Q5.1d Cash v tax***

## **Requirements:**

For 2019/20 calculate:

- (a) Kadiff's taxable employment income. Show your treatment of each item. **(8 marks)**
  
- (a) The national insurance contributions payable by both Kadiff and SM Ltd on Kadiff's remuneration package. Identify who pays each type of contribution. **(4 marks)**
  
- (a) Kadiff's income tax liability. **(8 marks)**
  
- (a) Kadiff's net disposable income. **(7 marks)**

# Student answer – 1 lovely answer(Q5.1d)

|    |                                 |        |  |  |  |
|----|---------------------------------|--------|--|--|--|
| 87 | d -                             |        |  |  |  |
| 88 | Disposable income               |        |  |  |  |
| 89 | Salary                          | 60,000 |  |  |  |
| 90 | Less class 1 primary per part b | -5,177 |  |  |  |
| 91 | Mileage reimbursement           | 6,500  |  |  |  |
| 92 | Less costs for running vehicle  | -3,750 |  |  |  |
| 93 | Apartment contribution          | -3,600 | £300pm x 12                                |  |  |
| 94 | Pension contribution - OPS      | -4,800 | 8% x 60k                                   |  |  |
| 95 | Reimbursed expenses             | 0      | Paid expense out and got income so net nil |  |  |

|     |                               |               |
|-----|-------------------------------|---------------|
| 96  | Lottery winnings              | 140           |
| 97  | Dividend income including ISA | 7,000         |
| 98  | Rental income                 | 12,000        |
| 99  | Mortgage interest expense     | -4,200        |
| 100 | Rental expenses               | -1,430        |
| 101 | Donation                      | -320          |
| 102 | Tax bill per part c           | -18,114       |
| 103 |                               |               |
| 104 | Net disposable income         | <b>44,249</b> |
| 105 |                               |               |

# *Student answer – 2 (Q5.1d)*

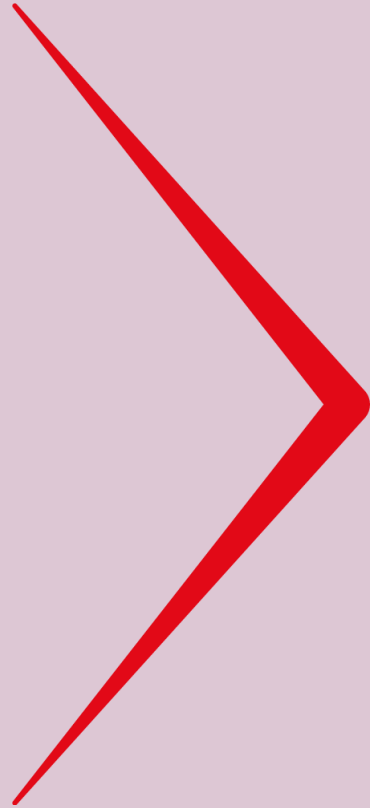
## *typical marginal student*

|    |   |                            |        |
|----|---|----------------------------|--------|
| 52 | D | $(6,800 - 2,000) * 32.5\%$ | 1,560  |
| 53 |   | <b>Tax Liability</b>       | 26,342 |
| 54 |   |                            |        |
| 55 |   |                            |        |
| 56 |   | (d)                        |        |
| 57 |   |                            |        |
| 58 |   |                            |        |
| 59 |   |                            |        |
| 60 |   |                            |        |
| 61 |   | 5.2                        |        |
| 62 |   | (a)                        |        |
| 63 |   |                            |        |
| 64 |   | Trading profits per Q      | 93,000 |
| 65 |   | Add:                       |        |

# ***Student answer – 3(Q5.1d)***

|    |   |  |        |
|----|---|--|--------|
| 67 |   |  |        |
| 68 | d | INcome tax laibility                         | 25848  |
| 69 |   | Less interest $75\% \times 4200 \times 20\%$ | -630   |
| 70 |   | Occupational pesnion scheme                  | -4800  |
| 71 |   | INcome tax payabvle                          | 20418  |
| 72 |   |  |        |
| 73 |   | Disposable income                            |        |
| 74 |   | Total income                                 | 98970  |
| 75 |   | INcome tax payable                           | -20418 |
| 76 |   | NIC class 1 payable                          | -5068  |
| 77 |   | Total disposable income                      | 73484  |
| 78 |   |  |        |

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***Other matters***

# ***Requirement wording***

Question 1 wording - 'identify' v 'explain'

Numerical questions – 'Show your treatment of each item.'

Mixed questions – December 2020 Q2.2

## **Requirement**

***Explain***, with supporting calculations, the VAT and stamp duty land tax implications, on purchase, of each of the three transactions. Assume any relief available is claimed. You are not required to consider the future tax implications. **(7 marks)**

# Dec 2020 – Q2.2 Answer

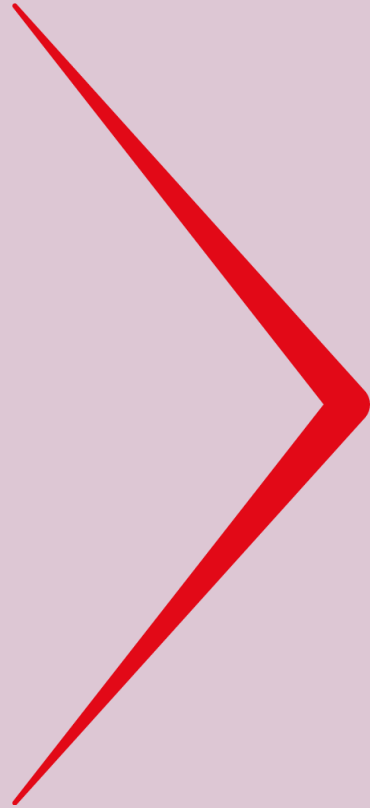
| 2.2   |        | Marks   |
|---|--------|---------|
| Purchase of new office building for £400,000  |        |         |
| VAT   |        |         |
| The office building is a <b>new (&lt; 3 years)</b> freehold commercial property, therefore the supply is <b>standard rated</b> , with VAT of £80,000 (£400,000 × 20%).          |        | 2 x 0.5 |
| As the purchase is more than £250,000 the <b>capital goods scheme</b> applies. On initial purchase only <b>30% of the VAT is recoverable</b> ie <b>£24,000</b> (£80,000 × 30%). |        | 3 x 0.5 |
| SDLT  |        |         |
| SDLT is based on the <b>VAT inclusive</b> ( <i>words needed</i> ) amount ie £480,000. The amount payable is:  |        | 0.5     |
|   | £      |         |
| £150,000 × 0%   | -      | 0.5     |
| (£250,000 - £150,000) × 2%  | 2,000  | 0.5     |
| (£480,000 - £250,000) × 5%  | 11,500 | 0.5     |
|   | 13,500 |         |



# ***Tricky areas for students***

- Application of ethics
- Corporation tax!
- Gains reliefs (ROR)
- 'Simplifications'
  - Cash basis
  - VAT flat rate scheme

6



**Qs & As**



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