

**QUESTION BANK**

**SECTION A**

**THE UK TAX SYSTEM**

**A**

**1. Overall function and purpose of taxation**

(a) What are the various principles to consider when debating the social justice of taxation?

(10 marks)

(b) Explain the difference between:

- (i) direct and indirect taxation
- (ii) tax avoidance and tax evasion

(10 marks)

**(20 marks)**

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## QUESTION BANK

### SECTION B

## INCOME TAX LIABILITIES

# B

### 2. Benefits assessable on P11D employees - Jack

Jack works for an accountancy firm. His employer has asked him to check the P11D forms of a company client for the year 2010-11.

Various specified employees of the company enjoy the following benefits:

1. Garry is provided with a company car. Until 5 October 2010, he was provided with a diesel car with CO<sub>2</sub> emission of 172g/km. The original list price of this car was £15,000. On 6 October 2010, the car was replaced with a new petrol car with a list price of £25,000, and a CO<sub>2</sub> emissions figure of 153 g/km. The employer provided fuel for both cars for both business and private use.
2. Richard, who is working as a director has taken a loan of £4,500 from the employer at 3.5% interest, to enable him to fund his vacations. This is the only loan he had taken.
3. On 6 April 2010, the company purchased a computer that cost £4,200 for its director, Jim, to keep at home. He used it for some business purposes but also as a family computer.
4. James was provided with a house with an annual value of £4,200 for which the company paid an annual rent of £3,200, along with the following ancillary services.

	£
Gas and electricity	1,320
Water	480
Council tax	1,100
Property repairs	2,800

5. Rowan was provided with a loan of £22,000 at 3% interest. The loan was granted three years ago to assist with the purchase of his home. He repaid £3,000 on 1 January 2011. The interest paid in 2010-11 was £638.
6. The company made available to its directors a yacht, moored on the south coast for two weeks each year. Pamela, who is working as a director spent a fortnight on the boat with her family. The yacht cost the company £45,000 in 2003, when it was made available to employees, (the current value is £35,000).
7. The company purchased a music system that cost £800 for the use of Duncan, a director, on 6 April 2009. On 6 April 2010, Duncan purchased the music system for £180; its market value at that time was £350.

#### Required:

- (a) Calculate the benefits in kind for each of the above employees, for inclusion in the employees' form P11D. The official rate of interest is 4.00% for 2010-11.  
(20 marks)
- (b) State the rules that determine when a bonus paid to a director is treated as being received for tax purposes.  
(3 marks)
- (c) Advise Jack regarding the forms that the company must provide to its employees following the end of the tax year 2010-11, in respect of their earnings and benefits for that year. State the dates by which these forms have to be provided to these employees.  
(2 marks)

(2 marks)  
**(25 marks)**

**3. Trading income assessments and property income - Abdul**

Abdul started trading on 1 January 2007 and ceased trading on 31 December 2010. Assume accounts were prepared as follows:

**1. To 31 December 2007 and thereafter to 31 December annually**

			£
Adjusted profits	Year ended	31/12/2007	42,000
	Year ended	31/12/2008	52,000
	Year ended	31/12/2009	62,000
	Year ended	31/12/2010	54,000

**2. To 31 March 2008 and thereafter to 31 March annually**

Adjusted profits	15 month ended	31/03/2008	51,000
	Year ended	31/03/2009	55,000
	Year ended	31/03/2010	65,000
	9 month ended	31/12/2010	34,000

**3. To 30 September 2007 and thereafter to 30 September annually**

Adjusted profits	9 month ended	30/09/2007	36,000
	Year ended	30/09/2008	45,000
	Year ended	30/09/2009	53,000
	Year ended	30/09/2010	41,000
	3 month ended	31/12/2010	14,000

**4. To 30 April 2008 and thereafter to 30 April annually**

Adjusted profits	16 month ended	30/04/2008	43,000
	Year ended	30/04/2009	58,000
	Year ended	30/04/2010	63,000
	8 month ended	31/12/2010	35,000

In 2010-11 Abdul received income from property. Details of the income and expenses were:

1. Rent from letting out a room in his house for £2,500. The allowable expenditure was £3,000.
2. Rent from a furnished flat. The flat had been let on a lease which expired on 30 June 2010 at an annual rent of £5,000. The property was re-let from 1 July 2010 on a seven-year lease at an annual rent of £8,000. In addition the incoming tenant was required to pay a premium of £3,000. Expenditure for the year ended 5 April 2011 was
  - i. Insurance of £450 was paid on 1 May 2010 (£400 was paid on 1 May 2009)
  - ii. Water rates and council tax £1,200
  - iii. Sundry repairs £350

The rent on both leases was paid quarterly in advance.

3. Rent from a holiday cottage which fulfils the requirements to be treated as qualifying holiday accommodation. The rent received was £4,200. The following expenditure was incurred:

	£
Insurance	500
Water rates and council tax	900
Sundry repairs and decorating	400
Cleaning	240
Accountancy	100
Advertising	400
Capital allowances on furniture and fittings adjusted for private use	500
	<b>3,040</b>

Abdul stayed in the cottage for the whole of August; however it was available for letting for the remainder of the year.