

Section A

- 1 B Corporation tax is a tax on the profits of companies, not the turnover. Inheritance tax is a tax on the transfer of assets not income. VAT is an indirect tax not a direct tax.
- 2 D $((42,385 - 8,060) \times 9\%) + ((48,000 - 42,385) \times 2\%) = £3,201$
- 3 C $190,000 ((500,000 - 25,000 (325,000 - 300,000)) \text{ at } 40\%) \text{ less } 40\% (4 - 5 \text{ years}) = £114,000$
- 4 B
- | | |
|--|---------|
| | £ |
| 460,000 $(1,380,000 \times 4/12)$ at 23% | 105,800 |
| 920,000 $(1,380,000 \times 8/12)$ at 21% | 193,200 |
| | <hr/> |
| | 299,000 |
| | <hr/> |
- 5 B
- 6 D $1,771 \times 30\% ((53,000 - 50,000)/100) = £531$
- 7 C
- 8 D $(2,000 - (2,000 \times 20\%) = £1,600)$, as this is higher than the market value at the date of transfer (£1,400).
- 9 B
- 10 A $£20,000 \times 8\%$ (CO2 emissions of the car exceed 130g/km) = £1,600. WDA is $£1,600 \times 70\% = £1,120$.

Section B

Question 1

a) Indicators of employment

1. The contract is for a relatively long period of time.
2. Srimal is required to do the work personally.
3. Mahogany plc exercises control over Srimal via the weekly meetings and instructions.
4. Srimal will not incur any significant expenses in respect of the contract.
5. Srimal will only be working for mahogany plc.
6. Srimal is not taking any significant financial risk.

Four items only required; 1 mark per item subject to a maximum of: 4

Institute of Certified Public Accountants – Sri Lanka
F2.2 Taxation
January 2017
Answers and marking scheme

b) Sirimal – Income Tax liability calculation (Up to a maximum of 6 marks)

	£	Marks
Income	40,000	1
Capital allowances	(3,600)	1
	<hr/>	
Trading profit	36,400	
Personal allowance	(10,000)	1
	<hr/>	
Taxable income	26,400	
 Income tax liability		
26,400 at 20%	5,280	1
 Sirimal – National insurance contributions 2015–16		
1. Class 2 national insurance contributions will be £143 (52 x 2.75).		1
2. Class 4 national insurance contributions will be £2,560 (28,444 (36,400 – 7,956) at 9%).		1
 Total marks		10

Question 2

a) Henry – Inheritance tax rising on death

Lifetime transfers within seven years of death.
 14 May 2016

	£	Marks
14 May 2016		
Value transferred	420,000	
Annual exemption		

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

2015 – 2016	(3,000)	0.5
2014 – 2015	(3,000)	0.5

Potentially exempt transfer 414,000

Inheritance tax liability		
296,000 (working) at nil%	0	
118,000 at 40%	47,200	0.5

Henry's daughter will be responsible for paying the inheritance tax of £47,200. 0.5

2 Aug 2016

Chargeable lifetime transfer	260,000	0.5
Inheritance tax liability 260,000 at 40%	104,000	0.5

The trust will be responsible for paying the inheritance tax of £104,000. 0.5

Death estate

Chargeable estate	870,000	
Inheritance tax liability 870,000 at 40%	348,000	0.5

The personal representatives of Henrys' estate will be responsible for paying the inheritance tax of £348,000. 1

Working – Available nil rate band	£	£	
Nil rate band		325,000	0.5
Chargeable lifetime transfer 9 October 2007			
Value transferred	35,000		0.5
Annual exemptions 2007–08	(3,000)		
Annual exemptions 2006–07	(3,000)		0.5
Chargeable transfer		(29,000)	0.5
		296,000	

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

- b) Skipping a generation avoids a further charge to inheritance tax when the children die. Gifts will then only be taxed once before being inherited by the grandchildren, rather than twice. 3

Total marks 10

Question 3

	£	
Loss before taxation	(150,000)	1
Depreciation	27,240	1
Gifts to employees	0	1
Gifts to customers	0	1
Political donations	420	1
Qualifying charitable donations	680	1
Impairment loss	0	1

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

Lease of motor car (4,400 x 15%)	660	1
Health and safety fine	5,100	1
Legal fees – Internet domain name	0	0.5
Interest payable	0	0.5
Capital allowances (working)	(50,420)	W
Trading loss		2
	(166320)	

Working – Capital allowance

	£££	Main pool £££	Allowances £££	
WDV brought forward		39,300		1
Additions qualifying for AIA				
Delivery van	28,300			1
AIA – 100%	(28,300)		28,300	1
	0			
Addition – Motor car [1]		14,700		1
		54,000		1
WDA – 18%		(9,720)	9,720	1
Addition qualifying for FYA				
Motor car [2]	12,400		12,400	1
FYA – 100%	(12,400)			
WDV carried forward		44,280		
Total allowances			50,420	1

Total marks 20

Question 4

a) Capital allowance calculation

AIA	FYA	Main pool	Allowances
£	£	£	£

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

Additions qualifying for AIA

1.5.16 Plant	346,666		
	(200,000)		200,000

Transfer to main pool	146,000	146,000	
-----------------------	---------	---------	--

Additions qualifying for FYA

3.8.16 Car (new – low emission	11,000		11,000
Less: 100% FYA	(11,000)		

Additions not qualifying for AIA or FYA

10.7.16 Car		9,000	
-------------	--	-------	--

Disposals

1.11.16 Plant		(20,000)	
---------------	--	----------	--

135,000

WDA @ 18%

24,300

TWDVs c/f

110,700

Maximum allowances claim

211,000

b) Recalculation of Capital allowance

Year to 30.4.17	£
-----------------	---

Cost	9,000
------	-------

WDA 18%	(1,620)
---------	---------

7,380

Year to 30.4.18

WDA 18%	(1,328)
---------	---------

6,052

Year to 30.4.19

WDA 18%	(1,089)
---------	---------

4,963

Year to 30.4.20

WDA 18%	(893)
---------	-------

Institute of Certified Public Accountants – Sri Lanka
F2.2 Taxation
January 2017
Answers and marking scheme

	4,070
<i>Year to 30.4.21</i>	
WDA 18%	(733)
	3,337
<i>Year to 30.4.22</i>	
WDA 18%	(601)
	2,736
<i>Year to 30.4.23</i>	
WDA 18%	(492)
	2,244
<i>Year to 30.4.24</i>	
WDA 18%	(404)
	1,840
<i>Year to 30.4.25</i>	
Disposal proceeds	(300)
Balancing allowance	1,540

- c) If the asset is still in use at 30 April 2024, WDAs up to 30.4.24 will be as above. In the year to 30.4.25, a WDA can be claimed of $18\% \times £1,840 = £331$. The tax written down value of $£1,840 - £331 = £1,509$ will be added to the main pool at the beginning of the next period of account. The disposal proceeds of £200 will be deducted from the main pool in that period's capital allowances computation. No balancing allowance will arise and the main pool will continue.

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

Mark allocation

a) 5 marks

1 mark – FYA

1 mark – AIA

1 mark – disposal

1 mark – WDA calculation

1 mark – TWDV

b) 8 marks – 2 marks for disposal proceeds, 2 marks for balancing allowance, 0.5 mark each for calculation of WDA.

c) 7 marks in total – 1 mark for each valid point and 2 marks for the final answer.

Total marks 20

Question 5

a) Thilina Raj – Income tax computation

	£	£	
Employment income			
• Director's remuneration		184,000	0.5

Institute of Certified Public Accountants – Sri Lanka

F2.2 Taxation

January 2017

Answers and marking scheme

• Mileage allowance (working 1)	1,425	W1
• Occupational pension contribution	(28,000)	0.5
• Car benefit (working 2)	3,760	W2
• Fuel benefit (20,200 x 32% x 5/12)	2,693	0.5
• Beneficial loan (working 3)	1,610	W3
	8,063	
Property business profit	6,730	0.5
	172,218	
Personal allowance	0	1
Taxable income	172,218	
74,370 (working 4) at 20%	14,874	0.5
97,848 at 40%	39,139	0.5

Income tax liability **54,013**

Working 1 – Mileage allowance

- The mileage allowance received by Thilina was £3,576 (5,960 at 60p) 0.5
- Ordinary commuting does not qualify for relief, so the tax free amount is £2,151 (4,270 + 510 = 4,780 at 45p). 1
- The taxable benefit is therefore £1,425 (3,576 – 2,151). 0.5

Working 2 – Car benefit

- The relevant percentage for the car benefit is 32% 1
(11% + 21% (205 – 100 = 105/5)).
- The motor car was available during the period 1 November 2015 to 5 April 2016, so the benefit for 2015–16 is £3,760 (28,200 x 32% x 5/12) 1

Working 3 – Beneficial loan

Thilina repaid £24,000 (12,000 + 12,000) of the loan during 2015–16, so the outstanding balance at 5 April 2016 is £60,000 (84,000 – 24,000). 1

The benefit calculated using the average method is £1,610 as follow 1

{ (84,000+ 60,000) / 2 } x 4%	2880
Interest paid	-
	1270

1,610

Working 4 – Effect of personal pension contributions on tax bands

- Both employee and employer pension contributions count towards the annual allowance, so the amount of unused allowance each year is £10,000 ($50,000 - (28,000 + 12,000)$). 1
- Unused allowances can be carried forward for three years, so the available annual allowances for 2015–16 are therefore £40,000 ($10,000 \times 4$). 1
- Thilina's basic and higher rate tax bands are extended by his gross personal pension contributions of £40,000, to £74,370 ($34,370 + 40,000$) and £190,000 ($150,000 + 40,000$) in respect of the personal pension contributions. 1

b) Thilina Raj and Surf plc – National insurance contributions

- Employee class 1 NIC for 2015–16 is £7,043 ($((42,475 - 7,605 = 34,870 \text{ at } 12\%) + (185,425 - 42,475 = 142,950 \text{ at } 2\%))$). 1
- Employer's class 1 NIC for 2015–16 is £24,555 1
($185,425 - 7,488 = 177,937 \text{ at } 13.8\%$).
- Employer's class 1A NIC for 2015–16 is £1,113 ($8,063 \text{ at } 13.8\%$). 1

c) Kumari Income tax computation

	£	
Pensions	8,040	0.5
Building society interest	21,400	0.5

Personal allowance working	(8,480)
Taxable income	20,960

Income tax		
2,710 at 10%	271	1
18,250 at 20%	3,650	1
Income tax liability	3,921	

Personal allowance working	£	£
Personal allowance (age 65 – 74)		10,500
Adjusted net income	29,440	
Income limit	25,400	
	4,040 /2	(2,020)

Institute of Certified Public Accountants – Sri Lanka
F2.2 Taxation
January 2017
Answers and marking scheme

	8,480	1
Total marks		20