

QWEAK 1

Income Tax

1. Percy is single and was born in 1968. The following information has been given to you in order that you can prepare his income tax computation. His salary as an auditor for the fiscal year 2006 /07 is £26,500. He also received a bonus of £3,000, which was in relation to work done in the year to 31.12.2005 and which was paid in September 2006. A bonus of £4,000 for the year ended 31.12.2006 will be paid in September 2007. He sold his holding of 11% Treasury stock on 10 April 2006, on which he made a profit of £2,500. Accrued interest paid in addition was £88. He received dividends of £270 in the year to April 2007 and building society interest of £80 in the year to 5.4.2006 and £100 in the year to 5.4.2007. He is a lucky man and has won £1,200 as a result of gambling on horses, but he tends to lose more than he gains overall. In November 2006 he sold his holding of 30th issue National Savings Certificates for £3,000. These had been purchased in 1993 (May) for £1,800 and had earned him 5.5% compound. His father died during the year and as an executor of the estate he was obliged to take out a loan to pay the inheritance tax. The loan interest was £600.

Calculate his income tax liability for 2006/ 07. (15)

2. Alec and Sarah have been married for twelve years. Alec is employed as a morgue attendant and Sarah is a secretary with a building firm. In 2006/07, Alec earned £13,050 and Sarah earned £11,500. Alec received £420 bank interest and Sarah received £540 dividends, both payments received in the 2006/07 tax year. Both are contracted in to S2P. Sarah has income of £1,000 from her ISA and PEP portfolio and Alec pays £50 per month into his personal pension.

Calculate their income tax liability for 2006/07. (16)

3. Peter was 42 in May 2006 and lives with his wife, whom he married in March 1998. Peter's wife had no income for 2006/07 and Peter's financial affairs for the same year are as follows:

	Fiscal Year ended	2006	2007
		£	£
Salary received		30,400	35,800
Bank deposit interest (account opened 3.6.1991)		110	80
Dividends received		1,633	2,700
Building society interest received			80
Loan interest for the purchase of a holiday home		220	180
Cheque Payment to the Charity for destitute life assurance salesmen (qualifying gift aid)		468	468

A performance related bonus of £3,280 was paid on 9 September 2005 relating to the year ended 30 June 2005. On 17 September 2006 a further bonus was paid of £2,980 relating to year ended 30 June 2006. Total PAYE for 2006/07 was £7,200

Calculate Peter's outstanding tax liability for 2006/ 07. (20)

4. On 29 December 2006, Eric married Sybil. Sybil's first husband had died on 10 March 2006, leaving her to bring up a son, Stanley who was born on 4.4. 1993. Eric has a sister, Mimosa, who was born in 1988 and who lives with, and is maintained by, Eric. After the marriage, Eric and Sybil moved into Eric's house. On 4 April 2007, they each sold their respective houses and used their combined proceeds to purchase a bigger house to which they have all moved. Both are contracted into S2P. Eric is obliged to use his own car for his employer's business for which his employer pays 20p per mile. Business mileage is 3,000. In addition, he is regularly called out to switch off the burglar alarm at head office. This occurs outside of office hours and he estimates this amounts to 1,000 miles per year.

Details of income are:

Eric

Salary	£12,000
Building society interest re-invested	£ 1,600
Income distribution from an equity unit	
Trust re-invested in accumulation units	£ 2,790

Sybil

Salary	£10,000
Dividends received	£ 2,500

Eric made mortgage payments of £3,800 on his house.

Prepare income tax computations for Eric and Sybil for 2006/07 and show any income tax liability.

(24)

5. Audrey Bristow died peacefully in her sleep on 5 January 2007. She was 72. Her income from 6.4.2006 to her date of death comprised the following:
- | | |
|------------------------------|---------|
| State retirement pension | £ 4,000 |
| Occupational pension (gross) | £10,031 |
| Building society interest | £ 5,000 |

Benjamin Bristow was seven years younger than his wife and has the following income.

Profits from his window cleaning business	
to 30 June 2005	£8,500
to 30 June 2006	£8,750

After his wife's death he received a pension from her occupational scheme of £2,100 (gross).

Calculate the income tax payable by Audrey and Ben for 2006/ 07.

(22)

6. Malcolm Green is a retired bank manager and a widower. He will be 75 on April 1 2007.

He has a pension of £14,000 per annum from his previous employer in addition to the basic state pension of £4,000. He keeps himself active by working part time as a gardener, for which he earns £25 per week.

Malcolm has considerable savings and the following represent amounts received in respect of them to 5 April 2007.

Bank deposit ordinary interest	£ 640
NS & I Pensioners bond interest	£1,100
Building society interest	£1,712
Interest on holdings of £4,000	
12% Exchequer stock	£ 480

He also received income in respect of a house that was let furnished from 1 August 2006. Rent of £4,000 accrued in the period to 5 April 2007.

Expenses of £1,000 were paid in the same period. Wear and tear was 10%. In addition he received rent from a house which had been let unfurnished for several years at a rent of £3,000 per annum. Repairs were carried out during the year which cost £800 and a conservatory was added for £8,000.

Compute Malcolm's income tax liability for 2006/07.

(23)

7. Colonel and Mrs. Rosalind Fotheringay-Smythe separated permanently on 4 April 2003 and on that day he executed a legally binding agreement to pay his wife a separation allowance of £300 per month, commencing on that date. Subsequent payments are made on the third of each month. The agreement was ratified by the court on 1.8.2003. The Colonel's wife was granted custody of their only child who was born in 1991 and who has lived with her mother since the separation.

The Colonel has operated a private investigation bureau since 1978 and recent profits, after business deductions, have been as follows:

YE 31.3.2005	£42,500
YE 31.3.2006	£33,580
YE 31.3.2007	£40,650

Rosalind works sixteen hours per week for a local charity (The redundant gaslighters' organisation) and was paid £255.00 per month during 2006/07. Tax under PAYE of £4.50 was deducted every month. Dividends received by the Colonel from UK companies during 2006/07 amounted to £13,450 (including tax credit). Rosalind holds shares in her family company and received dividends of £4,000 in June 2006 and £5,900 in February 2007. She also received bank deposit interest of £160 in November 2006.

The ownership of the family home was transferred to Rosalind on 29 September 2002. On the same date the mortgage of £18,000 was transferred to her from him. The total mortgage interest paid in 2006/07 was £1,505 gross. Payments were made on the first of each month.

The Colonel moved out on 3 August 2000 to take up residence in rented property. On 10 December 2001 he moved into a nearby cottage which he purchased with the assistance of a mortgage of £30,000. Gross interest payable to 5 April 2007 is £1,680. The Colonel pays £3,000 per annum into a personal pension which was taken out in 2000.

Finally, Rosalind lets out a furnished room in the family residence. The gross rent for 2006/07 is £5,090 with expenses, including wear and tear, of £3,100.

Calculate the taxable income and income tax liability for the Colonel in respect of 2006/07 and the repayment of income tax due to Rosalind. (36)

8. Poulson is employed by Artifacts Ltd., a small family company, in which he holds 20,000 ordinary shares: the remaining 70% are held by other senior executives of the company.

The company accounts show the following information

Company accounting Year to 30 th November	2005	2006	2007
	£	£	£
Salary (paid monthly)	27,780	28,500	33,000
Bonus (paid in the following February)	3,000	4,200	2,700
Dividends (paid in the following May)	13,200	9,000	12,300

The following information may also be relevant to the case study:

- The company owns a yacht which is moored at Ocean Village in Southampton to which all senior employees have access. It cost £250,000 in 1994 and the current value is £33,000. The running expenses amounted to £6,000 for each of the last three years. Poulson and his family spent two weeks on the yacht this year (2006)
- Poulson's mobile phone bills are paid by the company. The phone cost the company £1,200 and was made available in December 1997. The bills amounted to £437 (inc. VAT), which includes £190.00 rental. 50% of the calls are business related.
- The company paid a subscription to a private medical scheme which cost £330, including £55 for his family.
- Poulson took his meals in a fully subsidised executive canteen which cost £235 for the year. All staff has access to subsidised dining facilities.
- He is provided with a company car which is a three year old 2.3 litre (petrol) BMW (list price £26,000). He prefers his own car, which is a Ferrari Testarossa and so he lets his wife drive the company car which is fully expensed. His business mileage is 8,000 miles. Emissions are over 255g/km.
- He pays 3% into his company's contracted out occupational pension scheme. The company pays 7%.
- He has a 4% loan from the employer of £25,000 which was granted three years ago to assist with the purchase of his new house (main residence). He has no other loans and pays interest only, monthly.
- The dividends are in relation to total dividends for all shareholders

Calculate the income tax payable by Poulson for 2006/07. The official rate of interest for 2006/07 is 6% (30)

9. Distinguish between the three income sources under which employed income is treated. (9)
10. Explain the procedures in deducting tax from employed income (6)
11. Under what circumstances can a taxpayer claim a reduction on the payment on account and what are the implications of this course of action? (5)
12. Explain the conditions on which relief is granted to VCT's? (7)
13. A higher rate taxpayer establishes a Deed of Covenant for a UK based charity.
 - i) Describe a Deed of Covenant (3)
 - ii) Explain the tax treatment on an annual contribution of £1,000 (4)