Answers

Section C *Marks*

31 Alimag Ltd

(1) Gamila's income tax liability for 2016–17 will be:

	£	Marks
Director's remuneration	25,000	½
Dividend income	75,000	½
	100,000	
Personal allowance	(11,000)	½
Taxable income	89,000	

Income tax

£			
14,000	(25,000 – 11,000) at 20%	2,800	½
5,000	at 0%	0	½
13,000	(32,000 – 14,000 – 5,000) at 7·5%	975	½
57,000	(75,000 – 5,000 – 13,000) at 32·5%	18,525	½
89,000			
Income tax liability		22,300	

(2) Magnus' income tax liability for 2016–17 will be:

	£	Marks
Dividend income	25,000	½
Personal allowance	(11,000)	½
Taxable income	14,000	

Income tax

£			
5,000	at 0%	0	½
9,000	(14,000 – 5,000) at 7·5%	675	½
14,000			
Income tax liability		675	

(3) Gamila's class 1 national insurance contributions (NICs) for 2016–17 will be:

	£	Marks
£16,940 (25,000 – 8,060) at 12%	2,033	½

(4) There will be no class 1 NICs for Magnus because he will not have any earnings. ½

(5) Alimag Ltd's class 1 NICs for 2016–17 will be:

	£	Marks
£16,888 (25,000 – 8,112) at 13·8%	2,331	½

(6) Alimag Ltd's corporation tax liability for the year ended 5 April 2017 will be:

	£	Marks
Trading profit	180,000	½
Director's remuneration	(25,000)	½
Employer's class 1 NIC	(2,331)	½
Taxable total profits	152,669	
Corporation tax (152,669 at 20%)	30,534	½

Marks

(7) The overall savings of taxes and NICs for the tax year 2016–17 if the revised basis of profit extraction is used instead of the original basis of profit extraction is £15,465:

	£	
Original basis	73,338	
Revised basis (22,300 + 675 + 2,033 + 2,331 + 30,534)	(57,873)	
Overall savings	15,465	1
		10

32 Dill

(a) (1) Dill was resident in the UK during the three previous tax years, and was in the UK between 46 and 90 days, so does not meet any of the automatic tests. 1

(2) She has two UK ties, which are having a house in the UK (which is made use of) and being in the UK for more than 90 days during the previous two tax years. 1½

(3) Dill is therefore not resident in the UK for 2015–16 because she has less than three UK ties. ½

3

Tutorial note: *For 2015–16, Dill spent too long in the UK to be automatically treated as non-resident, and was not automatically treated as resident because she did not meet the only home test.*

(b) Dill – Taxable income 2016–17

	£	
Employment income		
Salary	270,000	½
Bonuses (16,200 + 29,300)	45,500	1
Company gym	0	½
Home entertainment system (5,900 x 20%)	1,180	1
Workplace nursery	0	½
Beneficial loan (80,000 x 3% x 10/12)	2,000	1½
Health club membership	990	½
Mileage allowance (working)	(1,625)	W
Professional subscription	(560)	½
Golf club membership	0	½
	317,485	
Premium bond prize	0	½
Interest from savings certificate	0	½
	317,485	
Occupational pension scheme contribution	(10,000)	1
Loss relief	(58,000)	1½
Personal allowance	0	½
Taxable income	249,485	

Tutorial notes:

(1) Dill's adjusted income clearly exceeds £210,000 (317,485 – 58,000 = £259,485), so she is only entitled to an annual allowance of £10,000 for 2016–17. Dill was not a member of a pension scheme prior to 2016–17, so no brought forward annual allowances are available.

(2) Dill's loss relief is not capped because the loss of £58,000 is clearly less than 25% of her adjusted total income ((317,485 – 10,000) x 25% = £76,871).

Working – Mileage allowance

	£	
10,000 miles at 45p	4,500	½
4,500 miles at 25p	1,125	½
	5,625	
Mileage allowance 16,000 at 25p	(4,000)	½
	1,625	
		12
		15

Marks

33 Last-Orders Ltd

(a) Last-Orders Ltd – Trading loss for the ten-month period ended 31 January 2017

	£	
Operating loss	(276,480)	
Depreciation	9,460	½
Counselling services	0	½
Employee pension contributions	0	½
Employer class 1 NICs	0	½
Employer class 1A NICs	0	½
Unpaid bonuses	10,400	½
Lease of motor car	0	½
Entertaining UK suppliers	1,920	½
Entertaining overseas customers	440	½
Qualifying charitable donations	800	½
Balancing allowance (24,200 – 13,600)	(10,600)	1
Trading loss	(264,060)	
		6

Tutorial notes:

(1) *No deduction is permitted where earnings are not paid within nine months of the end of the period of account.*

(2) *No adjustment is required where the CO_2 emissions of a leased motor car do not exceed 130 grams per kilometre.*

(b) Last-Orders Ltd – Taxable total profits for the ten-month period ended 31 January 2017

	£	
Property business income (working)	22,800	W
Chargeable gain (126,800 – 79,400 – 12,900)	34,500	1
	57,300	
Trading loss	(57,300)	½
Qualifying charitable donation	0	½
Taxable total profits	0	
Unused trading loss (264,060 – 57,300)	206,760	½

Working – Property business income

	£	
Rent receivable (19,200 x 2 x 10/12)	32,000	1
Insurance (1,800 x 10/12)	(1,500)	1
Repairs	(7,700)	½
Property business income	22,800	
		5

(c) (1) The trading loss can be relieved against Last-Orders Ltd's total profits for the previous three years, latest year first, because it is a terminal loss. 1½

(2) The trading loss can be surrendered to Gastro Ltd because there is a 75% group relationship. The amount surrendered will be restricted to 10/12ths of Gastro Ltd's taxable total profits for the year ended 31 March 2017. 2

(3) There is not a 75% group relationship with Gourmet Ltd, so no group relief claim is possible. ½

4

15

Additional marking guide for section C

		Marks available	Marks awarded
31	Alimag Ltd		
	Gamila – income	1·5	
	Gamila – income tax	2	
	Magnus	2	
	National insurance contributions	1·5	
	Corporation tax	2	
	Saving	1	
	Total marks	**10**	
32	Dill		
	(a) Residence	3	
	(b) Taxable income		
	Salary and bonuses	1·5	
	Benefits	4	
	Subscriptions	1	
	Other income	1	
	Pension	1	
	Loss relief	1·5	
	Personal allowance	0·5	
	Mileage allowance	1·5	
		12	
	Total marks	**15**	
33	Last-Orders Ltd		
	(a) Trading loss		
	Depreciation	0·5	
	Employee costs	2·5	
	Other costs	2	
	Balancing allowance	1	
		6	
	(b) Taxable total profits		
	Other items	2·5	
	Property income	2·5	
		5	
	(c) Terminal loss	1·5	
	Group relief	2·5	
		4	
	Total marks	**15**	

F6 Examiner's commentary on September/December 2017 sample questions

This commentary has been written to accompany the published sample questions and answers and is written based on the observations of markers. The aim is to provide constructive guidance for future candidates and their tutors, giving insight into what the marking team is looking for, and flagging pitfalls encountered by candidates who sat these questions.

Question 31

This higher skills question involved the withdrawal of profits from Alimag Ltd. The original basis (for which tax and national insurance contribution (NIC) figures were given) was for Gamila (the managing director and 100% shareholder) to withdraw £125,000 as director's remuneration. The more beneficial revised basis was for:

- Gamila to withdraw gross director's remuneration of £25,000.
- Gamila's husband, Magnus, to become a 25% shareholder in Alimag Ltd.
- Alimag Ltd to then pay dividends of £75,000 to Gamila and £25,000 to Magnus.

The requirement for 10 marks was to calculate the overall saving of taxes and NICs if the revised basis of profit extraction was used instead of the original basis. There were many perfect answers to this question, although other candidates had difficulty with various aspects. This scenario is covered in the Higher Skills article which has been published, and candidates are advised to work carefully through the examples contained in the article. It is important that candidates appreciate the interactions involved in this type of higher skills question. For example, director's remuneration reduces a company's taxable total profits, but the payment of dividends does not. Most candidates forgot to deduct the employer's NICs when calculating Alimag Ltd's profits. Another fairly common mistake was to apply NICs to the dividends received.

As already mentioned, tax and NIC figures were provided for the original basis of profit extraction. Candidates should never attempt to recalculate these figures for themselves, since all this does is waste a lot of time. Where there are several computations forming part of the same question, then candidates should always use appropriate headings to indicate which aspect is being answered. The tax computations were relatively straightforward, so there was no need, for example, to have separate columns for director's remuneration and dividends. The same went for the NIC computations given that the 2% rate was not applicable.

The calculation of the overall tax and NICs saving was often omitted. This was a very easy one mark to obtain given that candidates simply had to use figures already calculated.

Question 32

The income tax question involved Dill.

Up to and including the tax year 2014–15, Dill had always resident in the UK. However, during the tax year 2015–16, she was overseas for 305 days, spending just 60 days in the UK. Dill had a property in the UK and stayed there on the 60 days that she spent in the UK. She also has an overseas property. Dill did not have any close family in the UK, did not do any work in the UK and was not treated as working full-time overseas.

On 6 April 2016, Dill returned to the UK and commenced employment with Herb plc. Her employment package included bonuses, the use of a company gym and a workplace nursery, the personal use of a home entertainment system, a mileage allowance (for both business and private journeys) and an interest free loan. Dill contributed the maximum possible tax relievable amount into Herb plc's occupational pension scheme. She personally paid for the cost of subscriptions. Dill also received a premium bond prize and interest on the maturity of savings certificates from NS&I. She had a trading loss which was claimed against her total income.

Part (a) for 3 marks required candidates to explain why Dill was treated as not resident in the UK for the tax year 2015–16. Although reasonably well answered, very few candidates managed to pick up all the available marks for this section. For example, most candidates simply stated that Dill had been in the UK for 60 days, rather than indicating that this fell in the 46 to 90 day band from the tax tables. A number of candidates wasted time by explaining the automatically resident and not resident tests, when it was obvious that these were not relevant. Then when discussing UK ties, some candidates focused on those ties which were not met, rather than those which were. The three marks available should have been a clear indication that a long, detailed, explanation was not required.

Part (b) for 12 marks required candidates to calculate Dill's taxable income for the tax year 2016–17. This section was generally answered very well, with many candidates achieving high marks. Common problems included:

- Not appreciating that the benefit of a workplace nursery is an exempt benefit.
- Treating subscriptions as benefits rather than as deductions.
- Omitting the personal allowance. Even when shown, it was obvious (given the level of Dill's income) that the personal allowance was not available, so all that was needed was a zero entry. There was no need for an explanation or a calculation of the reduction to nil.
- If a question requires just a calculation of taxable income, then that is where candidates should stop. Calculating the income tax liability just wastes valuable time.
- As stated in the requirements, candidates should always clearly indicate (by the use of a zero) any items which are not taxable or deductible – such as exempt benefits, non-deductible expenses and exempt income.
- Where a computation contains additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions shown in brackets avoids any confusion.
- Candidates should think carefully about which workings can be included as one-line calculations within the main taxable income computation, and which need their own separate working. The only aspects which warranted a separate working here was the mileage allowance.
- The use of abbreviated numbers such as 45.5k instead of 45,500 for the bonuses should be avoided.

Question 33
The corporation tax question involved Last-Orders Ltd. The company ceased trading on 31 January 2017, having previously traded profitably. The ordinary share capital of Last-Orders Ltd was owned 80% by Gastro Ltd and 20% by Gourmet Ltd.

Part (a) for 6 marks required candidates to calculate Last-Orders Ltd's trading loss for the ten-month period ended 31 January 2017. This involved adjusting for depreciation, various employee costs, the lease of a motor car, entertainment expenditure and a qualifying charitable donation, plus calculating the balancing allowance on the cessation of trade. Although this section was very well answered by many candidates, it caused problems for others. The section did not require any detailed workings, with any adjustments easily contained within the single computation. When commencing with a loss figure, candidates should be particularly careful to indicate which adjustments are deductions and which are additions. A single column approach with deductions shown in brackets avoids any confusion. Many candidates did not show those items not requiring any adjustment, despite being instructed specifically to do so – easy marks thereby being lost. Also, candidates should appreciate that there is no need to adjust for items of income which occur in the statement of profit or loss AFTER the figure used to commence the loss adjustment. Last-Orders Ltd had ceased trading, so this meant that there was a balancing allowance. Many candidates missed this point, instead calculating capital allowances for the period.

Part (b) for 5 marks required candidates to calculate Last-Orders Ltd's taxable total profits for the ten-month period ended 31 January 2017. This was on the assumption that relief for the trading loss was claimed against this period's income. Last-Orders Ltd's other income consisted of property business income and a chargeable gain. This section was generally well answered, with a number of perfect answers. However, candidates do not impress if they make basic mistakes such as deducting the annual exempt amount when calculating a corporate chargeable gain. Also, candidates should always be careful to follow the requirements – an easy half-mark was sometimes missed by not showing a figure for the amount of unused trading loss despite this being specifically requested.

Part (b) for 4 marks required an explanation of the alternative ways in which Last-Orders Ltd's unused trading loss could be relieved. Given that the company had ceased trading, candidates should really have realised that the loss could not be carried forward. Vague answers such as 'claim terminal loss relief' are not sufficient. Instead, candidates should have stated that relief was against total profits, for the previous three years and on a latest year first (LIFO) basis.