**6003 BUSAF: Taxation 2013-14**

**Course Assessment**

**Scenario**

You work in the tax department of a firm of Chartered Accountants, ABC LLP. You have been requested to prepare some calculations for one of the firm’s clients, Graham Robinson, setting out the tax and national insurance consequences of two courses of action that he is considering.

Graham, aged 38, is employed as an engineer and he has decided to leave his current employer on 31 March 2014. He is considering two work opportunities and wants to know the income tax and national insurance consequences of both as well as any other tax or financial issues he should be aware of.

The first opportunity is an employment option which he would start on 6 April 2014. The second opportunity is to be self-employed which he would start on 1 April 2014.

Graham also has income from property, the tax consequences of which need to be calculated.

You should bear in mind throughout this assessment that you are employed by a reputable firm of accountants with ethical standards. If you identify any issues of ethical uncertainty in your advice, please explicitly state what these uncertainties are and what steps you suggest to resolve them.

**Your assessment must be produced as a word processed document (printed) and submitted to the Transactions Desk, Aldham Robarts Student Zone by 4 pm on Thursday 13 February 2014.**

**Handwritten assessments will not be marked.**

**In line with the policy for anonymous marking, your name and student number should not appear on your submitted document. You should complete and attach a Coursework Cover Submission sheet when you submit your coursework at the AR Student Zone.**

**First opportunity - Employment**

Graham has been offered another job in a different part of the country which he will start on 6 April

2014, on the following terms. In the tax year 2014-15 he will receive or pay:

* Salary £71,000, PAYE deducted of £26,879.
* Annual bonus £5,000.
* A company car, to the value of £27,503 (list price), which will be 1,800cc, diesel and have CO2 emissions of 196g/km. The employer will be able to purchase the car at a discount of 10%. Graham will drive 18,000 miles per year, 70% will be business miles.
* The employer will pay all the running costs of the car, including diesel for private use. Graham will be required to contribute towards these costs in the amount of £70 per month towards the car running costs, and £35 per month towards the cost of private fuel.
* On 6 August 2014, the employer will give Graham a loan to help him purchase furniture for the house he will move to. The loan will be £12,000 and interest will be charged at 1.5%. The official rate of interest is 4%.
* Graham will receive a contribution towards his removal expenses of £14,000.
* He will get the use of a mobile telephone with a contract value of £80 per month.
* The company gives staff an annual staff party, the cost of which is usually about £200 per head. Both Graham and his wife will attend.
* The company will pay his annual subscription to the Institute of Engineering, a recognised HMRC professional body, costing £375.
* The company will loan him a computer for use at home. The computer will cost £1,500 and will be for his personal use.
* The employer will pay a golf club membership subscription for him of £1,000 during 2014-15.
* Graham will pay a pension contribution of £5,000, by way of deduction from his salary, into the HMRC approved occupational pension scheme operated by his new employer.

Other income:

Graham owns four properties which are let out. The following information relates to 2013-14:

Property 1 – House let out furnished throughout the year, monthly rent £575, payable in advance. During the year he paid council tax of £1,200 and insurance of £340 in connection with the property. He claims wear and tear allowance for this property.

Property 2 – House let out unfurnished. Property was purchased on 6 March 2013 and was empty until 30 June 2013. It was let out from 1 July 2013 to 31 January 2014 at monthly rent £710. On 31 January 2014 the tenant left owing three months rent that Graham was unable to recover. The property was not re-let before 5 April 2014. During the tax year Graham paid insurance of £290 and spent £670 on advertising for tenants. He also paid loan interest of £500 in respect of a loan that was taken out to purchase this property.

Property 3 – Leasehold office building that is let out unfurnished. Graham pays annual rent of £6,800, and did not pay a premium when he acquired the lease. On 6 April 2013 the property was let to a sub tenant, Graham received a premium of £15,000 for the grant of a five year lease. He also received annual rent of £4,600. He paid £360 for insurance re this property.

Property 4 – During 2013-14 Graham rented out one furnished room in his main residence. He received rent of £5,040 and incurred allowable expenditure of £1,140 in respect of the room. Graham calculates the taxable income for the furnished room on the most favourable basis.

Income from property should be calculated on an accruals basis.

**Second opportunity – Self-employed**

Alternatively Graham has the chance to establish an engineering consultancy. He would be his own boss, running the business as a sole trader. Graham has provided a projected Profit and Loss Account for the first year of trading to 31 March 2015:

**Graham Robinson - Engineering Consultant**

**Projected Profit & Loss Account for the Year Ending 31 March 2015**

 £ £

Sales - Consultancy fees 131,500

Less: expenses

Entertaining 2,000

Wages - wife (secretarial services) 8,105

- daughter (at university) 6,000

General expenses 1,250

Rates and water rates 2,500

Insurance - including insurance premium tax 1,920

Printing, postage and stationery 2,730

Heat and light 2,100

Consumables - suits for business meetings 650

Motor expenses and fuel 3,860

Other travel expenses 3,250

Telephone and communications 2,300

Bank interest and charges 5,200

Depreciation of car and office furniture 9,000

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(50,865)

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Net profit 80,635

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* Graham will need to purchase a motor and office furniture during the year to 31 March

2015:

* The cost of the motor vehicle is £27,000 which is after a discount from list price of £3,500. This petrol vehicle has CO2 emissions of 173g/km. He estimates he will use the car for 40% private use.
* The cost of the office furniture is £22,500.
* Graham will pay a contribution of £4,000 net into a personal pension scheme.
* Graham has found a suite of offices to use for his business. He will pay the landlord a lease premium of £25,000 for a 6 year lease.
* Other travel expenses include attendance at an Engineering conference in Madrid. Graham’s wife will go with him to do some sight-seeing. The cost of hotel, food and travel will be £950 each.
* Telephone includes £840 for Graham’s mobile phone contract. He will use the phone mainly for business but estimates his private use will be 20%.
* Graham will pay the cost of his home phone himself. The call charges will be £600 and he estimates 60% of the calls will be business related.
* General expenses include:
* Subscription to Institute of Engineers £375
* Donation to political party £395
* Graham’s parking fines £240
* Miscellaneous allowable expenses £240
* Bank interest and charges includes £2,400 of interest on a loan to purchase the car.

Other income: Graham’s property income is the same as outlined in the first opportunity.

**Assessment requirements**

For this assessment you are required to:

1. Calculate the income tax and all of the national insurance consequences of the employment opportunity. This will require you to:

a. Calculate the value of any benefits in kind and allowable deductions

b. If any benefits are not taxable, to explicitly state which and why not

c. Calculate the amount of taxable property income.

d. Present your answer as an income tax computation, showing the tax liability for the year and the tax payable.

2. Calculate the income tax and national insurance consequences of the self-employment opportunity. This will require you to:

a. Adjust the projected net profit for non-deductible expenses, stating clearly why

these are not allowable for tax purposes.

b. Calculate capital allowances on the motor vehicle and furniture

c. Calculate the deduction available in respect of the lease premium payment

d. Include the taxable property income.

e. Present your answer as an income tax computation, showing the tax liability for the year and the tax payable.

3. Prepare a *memorandum* offering advice to Graham based on your calculations. This should

include:

a. Any further tax considerations not included in your calculations

b. Any non-tax considerations that you consider to be relevant to Graham’s decision

c. Consider and explain which of the two alternatives you consider to be financially

better, including a comparison of his net income taking account of his tax, Nic,

pension contributions and any other items that you consider should be adjusted in

making a reasonable comparison.

d. Any uncertainties in your advice, including a list of further information you feel you

require

e. The memorandum should not exceed 1,500 words

**“Today’s” date is 28 January 2014. Even though you will be basing your calculations on what Graham expects to earn in the 2014-15 tax year you should base all your tax calculations using the current 2013-14 rates for income tax, national insurance, benefits in kind and capital allowances etc.**

**Certain income tax and national insurance rates for 2013-14 are attached. You will need to obtain some other rates, as appropriate. Your work should clearly show all your calculations.**

**The breakdown of marks for this assessment is:**

Assessment criterion 1 - Employment opportunity 25% plus 10% for property income calculations, total 35%

Assessment criterion 2 - Self-employment opportunity 25% (no further marks for property income calculations, but total property income should be included.

Assessment criterion 3 - Memorandum 25%

Assessment presentation, layout, and language 15%

Note: you are expected to reference any advice offered to relevant sources, if appropriate. Any ethical issues should be referenced to appropriate professional ethical standards.

This is an **INDIVIDUAL** assessment. Any instances of COLLUSION or PLAGIARISM **will be penalised**.

**Tax rates for 2013-14**

**Non savings income**

|  |  |  |
| --- | --- | --- |
| **2013-14** | **Income** | **Dividends** |
| Basic rate  | 20% on first £32,010 | 10% |
| Higher rate | 40% on £32,011 to £150,000 | 32.5% |
| Additional rate | 45% on excess over £150,000 | 37.5% |

**Savings income**

|  |  |  |
| --- | --- | --- |
| **2013-14** | **Tax band £** | **Rate £** |
| Starting rate | 0 – 2,790 | 10% |
| Basic rate | 2,791 – 32,010 | 20% |
| Higher rate | 32,011 – 150,000 | 40% |
| Additional rate | Over 150,000 |  |

**Tax allowances for 2013-14**

|  |  |
| --- | --- |
| **Age 0 – 64** | **£9,440** |
| **Age 65 – 74**  | **£10,500** |
| **Age 75 +** |  **£10,660** |
| **Blind Person’s** | **£2,160** |

**CO2  rates for 2013-14**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CO2 g/km** | **% Petrol** | **% Diesel** | **CO2 g/km** | **% Petrol** | **% Diesel** | **CO2 g/km** | **% Petrol** | **% Diesel** |
| 95 | 11 | 14 | 140 | 20 | 23 | 185 | 29 | 32 |
| 100 | 12 | 15 | 145 | 21 | 24 | 190 | 30 | 33 |
| 105 | 13 | 16 | 150 | 22 | 25 | 195 | 31 | 34 |
| 110 | 14 | 17 | 155 | 23 | 26 | 200 | 32 | 35 |
| 115 | 15 | 18 | 160 | 24 | 27 | 205 | 33 | 35 |
| 120 | 16 | 19 | 165 | 25 | 28 | 210 | 34 | 35 |
| 125 | 17 | 20 | 170 | 26 | 29 | 215+ | 35 | 35 |
| 130 | 18 | 21 | 175 | 27 | 30 |  |  |  |
| 135 | 19 | 22 | 180 | 28 | 31 |  |  |  |

**National Insurance Contributions**

Note: these are annual limits unless indicated otherwise. The PAYE system uses weekly or

monthly limits which do not exactly match the annual limits when they are multiplied by 52 or

12 respectively. For this assessment use the annual limits)

**Class 1** – on employment income (wages, salaries, bonuses etc)

**Primary** – employees

• 12% on annual earnings from £7,755 to £41,450

• 2% on higher levels

**Secondary** – employers

• 13.8% from £7,703

**Class 1A** – Employers only. On benefits in kind (eg company car, fuel for private use)

• 13.8%

**Class 1B** – Employers only on PAYE settlement agreements

• 13.8%

 **Class 2** - On self – employed income

* £2.70 **per week**, if earnings over £5,725

**Class 3** – Voluntary, to protect pension and benefit rights

• £13.55 **per week**

 **Class 4** - on self-employed income, based on taxable profit

• Between £7,755 and £41,450 – 9%

• Above £41,450 – 2%