

Answer all questions

Question one:

You are Emmanuel hand and you are a newly qualified certified public accountant working in a medium sized practice in Posten. You have been given the following information by your manager. He wants you to draft him a briefing memo in respect of the proposed sale of business by a long standing client- Ms. Seliman Bashir.

Ms. Seliman Bashir has operated a successful engineering company, Blue Nile Engineering Ltd since 2007. He owns 100% of the issued share capital of the company. Ms. Seliman is 50 years of age and has decided that he wants to sell his business in Poland and retire to the south of Douland. He has identified a villa there which is on the market for £4,500,000 and would like to purchase this property. When it became public knowledge that Seliman was intending to retire a competitor company offered him £8,000,000 for the shares in Blue Nile engineering Co. Ltd. The potential purchaser has also stated that it would be interested in purchasing the assets of the company. Where the assets are simply being bought then the purchase price will be increased by the amount of the liabilities in Blue Nile engineering as these will no longer be taken over by the purchaser. Below is the statement of financial position for Blue Nile engineering at 31 December 2018.

Details	Note	£	£
Assets:			
Non-current assets:			
Property	1	4,000,000	
Plant & machinery	2	200,000	
Investment property	3	<u>960,000</u>	
			5,160,000
Current assets:			
Inventory	4	400,000	
Trade receivables		900,000	
Cash		<u>100,000</u>	
			<u>1,400,000</u>
Total assets			<u>6,560,000</u>
Equity and liabilities:			
Equity and reserves:			
Issued share capital		400,000	
Revaluation reserve		2,000,000	
Profit & loss account		<u>3,680,000</u>	
			6,080,000
Non-current liabilities:			
Loan			80,000
Current liabilities			
Trade payables			<u>400,000</u>
Total Equity and liabilities			<u>6,560,000</u>

Notes:

- 1) The company's only property is located in Posan, Posten. it was acquired in 2007 for £2,000,000 and is included in the financial statements as its current market value.
- 2) The market value of the plant & machinery is the same as its net book value and was acquired in 2016 for £280,000.
- 3) The company purchased this UK investment property in 2017 for £800,000 and it is included the financial statements as its current market value.
- 4) All inventories were purchased in 2018 and were bought for £400,000.

Required:

Draft a briefing memo to year advising which option is the most tax efficient for Ms. Seliman bearing in mind his intention in respect of the net proceeds. Your memo should outline the corporation tax and capital gain tax implications of a share sale and an asset sale. With regards to an assets sale your memo should consider the most efficient method of cash extraction from the company post the assets sale.

(Total 25 marks)

Question two:

Beko is a Towland based industrial company engaged in the energy industry. The following information relates to the year ended 31 March 2018:

- i. The adjusted profit from table DI for the year was 132,000 pounds.
- ii. Beko has a stock in three Towland – based companies – and in the year ended 31/3/2018, the results were as follows:

Company	Contribution	Loss in table DI	Dividend paid
Delta	80%	(243,000)	81,000
Segma	60%	(123,000)	40,500
Nata	20%	(132,000)	162,000

Beko has contributions in two companies outside Towland and the results for the year ended 31/3/2018 were as follows:

Company	Contribution	Loss in table DI	Dividend paid
Sata	60%	(1,440,000)	711,360
Yata	5%	(2,430,000)	1,200,420

Profits are subject to corporate tax a rate of 35% outside Towland and are used accounting and tax year twice (Net is 5%) a double taxation agreement. On 15 June 2017 Beko Company sold an office for 726,000 pounds. The capital gains amounted to 156,000 pounds- in April 2018, the two companies (Delta, Segma) purchased factories worth 630,000 – 705,000 pounds respectively.

Required:

- a) **Calculate taxable income on the assumption that all exemptions were requested in a clear and correct manner at 31/3/2018.**
(17 marks)
 - b) **Explain how double taxation is handled for group companies both inside and outside Towland.**
(8 marks)
- (Total 25 marks)**

Question three:

As the newly qualified certified public accountant working in an accountancy practice in Cata City. You met with Mss. Posten. Ayat owns 100% of Natural Make-up Ltd. The company has dramatically increased its revenues in the last few years and as a result, the company has a surplus cash balance of £1,900,000.

Unfortunately, Ayat's personal cash flow position is not as good as her company's. During 2017 and 2018 Ayat purchased a number of residential properties in Dallas which she currently rents to a number of tenants. The properties cost her £1,500,000 including VAT. Ayat was unable to recover any of the VAT she was charged at the time of purchase. However, the properties did qualify for section 23 relief. Ayat has utilised this relief annually in her income tax returns. A local estate agent has recently valued these properties at £800,000 and Ayat is relieved at this valuation as this matches the loan balance outstanding on the properties. In an attempt to free up some of her monthly cash flow Ayat wants to transfer her Dallas investment properties to her company. She will then use the funds that her company will pay for the properties to pay off the bank loans.

Ayat is not married and as she does not have any children. She is very close to her two nieces, Mariam (25) and Maroua (12) year. Mariam is due to get married next month and she and her finance are currently trying to find a suitable home in Delta City. They have encountered some difficulty in getting a bank to lend them the money they will need to buy a house. Ayat would like to gift her niece £800,000 to enable her and her finance to buy their first home together. In order to find this gift Ayat is considering taking a loan of £600,000 from her company. She will pay interest on the loan of 3.5% per annum as this equates to the deposit interest rate currently earned by the company on the money on deposit. Ayat is confident that she will be able to repay the loan within 2 years as she will no longer have to fund the mortgage on the Dallas investment properties.

Ayat does not want to appear to favour one of her nieces over the other and so she wants to make a gift to Maroua now also. Despite the fact that Maroua is only 12 years old. Ayat likes to gift Maroua her Cata apartment which she has lived in since 2004. She has decided that she will now settle the apartment on a fixed trust which will be for the benefit of Maroua when she reaches 18 years. Ayat bought the apartment for £450,000 and it now has a market value of £550,000.

Mariam and Maroua have never received any gifts or inheritances before.

Required:

Draft a letter to Ayat discussing the following:

(A) The tax implications for Ayat and for Natural Make-up Ltd of the proposed sale of the Dallas residential properties to Natural Make-up Ltd. (7 marks)

(B) The tax implications for Ayat taking a loan from Natural Make-up Ltd. (4 marks)

(C) The tax implications of the gift to Mariam. Ayat has read recently that a house can pass free of capital acquisitions tax as a result of relief. She would like your advice in respect of this relief. (8 marks)

(D) The tax implications that arise on the transfer of her Cata apartment to affixed trust in favour of Maroua. (6 marks)

(Total 25 marks)

Question four:

As a tax expert and you have three partners who run engineering work activity started on 1/1/2016 until 30/6/2017. The company was composed of Mr. Sami, Samier and Salim, and the distribution of profit ratio 5:3:2 respectively. On June 30, 2017, Salim apologizes on continuity with a partnership and was replaced by Saleim on July 1, 2017, as the percentage of the distribution of shares remained unchanged. The adjusted profit for the year ended 31/12/2016 amounted to 122,000 pounds after capital allowances.

And the profit and loss account for the year ended 31/12/2017 for the partnership as follows:

	£	£pounds
Gross profit		420,000
Administration expenses (all allowable)	(253,600)	
Depreciation	(5,400)	
Land (Haker) amortization	<u>(2,500)</u>	
		<u>(261,500)</u>
Net profit		158,500

The partnership paid (advance payment) of 25,000 pounds to rent a workshop on 1/1/2016 for a period of ten years and the transferable balance of the machines on 31/12/2016 as follows:

£

General group (pool) 22,000

Cars:

Sami 40% personal use 14,500

Hassein 80% personal use 8,000

Salim 80% personal use 15,000

All these vehicles (cars) are owned by the partnership and Salim retained his car when he apologized for the partnership on 30/6/2017. The value of the vehicle was estimated at 13,500 pounds in 1/7/2018, Saleim entered the partnership with his own vehicle, which is valued at 10,000 pounds and with especial use rate of 70% table DI for the year ended 31/12/2018 was estimated at 190,000 pounds after capital allowances.

Required:

1. Advise each partner of the taxable profit for the year 2017/2018 to be on your monthly basis.

(15 marks)

2. On 31/12/2018 the partnership decided to sell its property for 45,000 pounds and will buy a property for 65,000 pounds – advise partners on the tax effect of selling the workshop and buying the free property.

(5 marks)

3. According to the provisions of article (A393) of the companies' tax law- explain how losses resulting from table DI were treated.

(5 marks)

(Total 25 marks)

End Question paper