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ACCA – Paper P6
Advanced Taxation
June 2015 to June 2016 sittings
FA2014
Interim assessment

Instructions

- Please complete your personal details above.
- All scripts should ideally be submitted to your Kaplan centre for marking via email to help speed up the marking process.
  Please scan this form and your answer script in a single PDF and email it to your Kaplan centre.
- Alternatively you may post your script to us. If so, please use the correct Royal Mail tariff (large letter).
- Classroom students may submit scripts to their local centre in person.
  You will be provided with the dated receipt below which you should retain as proof of submission.

Note: If you are a sponsored student, your result will form part of the report to your employer.

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Marking Report

Notice to Markers

1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

2 Please provide suitable constructive comments for each question in both section A and B.

Question Number	General Comments	Exam Technique Comments

ACCA INTERIM ASSESSMENT

Advanced Taxation (United Kingdom)

June 2015 to June 2016 examination sittings FA2014

Paper P6 (UK)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 3 – 7

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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TAX RATES AND ALLOWANCES

SUPPLEMENTARY INSTRUCTIONS

1. **You should assume that the tax rates and allowances for the tax year 2014/15 and for the Financial year to 31 March 2015 will continue to apply for the foreseeable future unless you are instructed otherwise.**
2. **Calculations and workings need only to be made to the nearest £.**
3. **All apportionments should be made to the nearest month.**
4. **All workings should be shown.**

INCOME TAX

		Normal rates	*Dividend rates*
		%	%
Basic rate	£1 – £31,865	20	10
Higher rate	£31,866 – £150,000	40	32.5
Additional rate	£150,001 and above	45	37.5

A starting rate of 10% applies to savings income where it falls within the first £2,880 of taxable income.

Personal allowances

Personal allowance:	
Born on or after 6 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660
Income limit:	
Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Car benefit percentage

The base level of CO_2 emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO_2 emissions up to this level are:

	%
75 grams per kilometre or less	5
76 grams to 94 grams per kilometre	11
95 grams per kilometre	12

Car fuel benefit

The base figure for calculating the car fuel benefit is £21,700.

New Individual Savings Accounts (NISAs)

The overall investment limit is £15,000.

Pension scheme limits

Annual allowance	– 2014/15	£40,000
	– 2011/12 to 2013/14	£50,000
Lifetime allowance		£1,250,000

The maximum contribution that can qualify for tax relief without evidence of earnings is £3,600.

Authorised mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery	
Main pool	18%
Special rate pool	8%
Motor cars	
New cars with CO_2 emissions up to 95 grams per kilometre	100%
CO_2 emissions between 96 and 130 grams per kilometre	18%
CO_2 emissions above 130 grams per kilometre	8%
Annual investment allowance	
Rate of allowance	100%
Expenditure limit	£500,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

CORPORATION TAX

Financial year	*2012*	*2013*	*2014*
Small profits rate	20%	20%	20%
Main rate	24%	23%	21%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	1/100	3/400	1/400

Marginal relief

Standard fraction × (U – A) × N/A

Patent box

Net patent profit × ((Main Rate – 10%)/Main Rate)

VALUE ADDED TAX

Standard rate	20%
Registration limit	£81,000
Deregistration limit	£79,000

INHERITANCE TAX: Nil rate bands and tax rates

	£
6 April 2014 to 5 April 2015	325,000
6 April 2013 to 5 April 2014	325,000
6 April 2012 to 5 April 2013	325,000
6 April 2011 to 5 April 2012	325,000
6 April 2010 to 5 April 2011	325,000
6 April 2009 to 5 April 2010	325,000
6 April 2008 to 5 April 2009	312,000
6 April 2007 to 5 April 2008	300,000
6 April 2006 to 5 April 2007	285,000
6 April 2005 to 5 April 2006	275,000
6 April 2004 to 5 April 2005	263,000
6 April 2003 to 5 April 2004	255,000
6 April 2002 to 5 April 2003	250,000
6 April 2001 to 5 April 2002	242,000
6 April 2000 to 5 April 2001	234,000
6 April 1999 to 5 April 2000	231,000

Rate of tax on excess over nil rate band	– Lifetime rate	20%
	– Death rate	40%

Inheritance tax: taper relief

Years before death	*% reduction*
Over 3 but less than 4 years	20
Over 4 but less than 5 years	40
Over 5 but less than 6 years	60
Over 6 but less than 7 years	80

CAPITAL GAINS TAX

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exempt amount		£11,000
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

NATIONAL INSURANCE CONTRIBUTIONS
(not contracted out rates)

			%
Class 1	Employee	£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	12.0
		£41,866 and above per year	2.0
Class 1	Employer	£1 – £7,956 per year	Nil
		£7,957 and above per year	13.8
		Employment allowance	£2,000
Class 1A			13.8
Class 2		£2.75 per week	
		Small earnings exception limit £5,885	
Class 4		£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	9.0
		£41,866 and above per year	2.0

RATES OF INTEREST

Official rate of interest:	3.25%
Rate of interest on underpaid tax:	3.0%
Rate of interest on overpaid tax:	0.5%

STAMP DUTY LAND TAX

	%
£150,000 or less	Nil
£150,001 – £250,000	1
£250,001 – £500,000	3
£500,001 – £1,000,000	4
£1,000,001 – £2,000,000 (2)	5
£2,000,001 or more (2)	7

(1) For residential property, the nil rate is restricted to £125,000.

(2) The 5% and 7% rates apply to residential properties only. The 4% rate applies to all non-residential properties where the consideration is in excess of £500,000.

STAMP DUTY

Shares	0.5%

SECTION A

BOTH questions are compulsory and MUST be attempted.

1 You have received the following email from your manager.

From: Martina Smith

Subject: Phil Mitchel (deceased)

Date: 13 June 2015

I have a meeting early next week with Mrs June Mitchel and her son Bradley. They wish to discuss various inheritance tax and capital gains tax matters concerning the estate of Mrs Mitchel's late husband. In addition Bradley wishes to know the tax effects of a share sale that he is planning.

I have attached some information about Phil Mitchel's tax affairs and the proposed share sale and I would like you to prepare some briefing notes for me covering the following issues:

– An explanation of the inheritance tax implications resulting from Phil's death on 23 March 2015. Please make sure that you include a calculation of any inheritance tax liabilities arising, and also an explanation of the basis for valuing his shares in Queen Ltd and of any reliefs which are available.

– An explanation of the capital gains tax implications arising as a result of the gifts in July 2014, and the proposed sale by Phil's son in December 2015. Please include a calculation of any tax arising, assuming that gift relief has not been claimed.

– Please explain what difference it would make if gift relief had been claimed. I do not need any further calculations for this part.

– Mrs Mitchel and her son are keen to know the effect of entering into a deed of variation. Can you include an explanation of whether any tax could be saved by entering into such a deed? Also please specify the conditions which need to be satisfied and the potential disadvantages in varying the terms of a will.

The information attached to the email is set out below.

Phil Mitchel, aged 48, died on 23 March 2015. At his death he owned the following assets:

(1) 30% of the £1 ordinary shares in Queen Ltd, an unquoted trading company. The remaining shares were held as follows:

Phil's wife	25%
Phil's son	10%
Unconnected persons	35%

Phil had originally acquired a 65% holding when he became a director of the company in April 2012, for £650,000, but had gifted his wife's shareholding to her on 10 July 2014 and his son's shareholding to him on 20 July 2014.

The value of the shares have been agreed by HMRC as follows:

% holding	*July 2014*	*March 2015*
	£	£
65	2,100,000	2,250,000
55	1,450,000	1,500,000
40	850,000	900,000
30	650,000	700,000
25	500,000	550,000
10	150,000	175,000

10% of the assets of Queen Ltd are surplus cash balances (i.e. excepted assets).

(2) 10,000 £1 ordinary shares in Club Ltd, an unquoted trading company. The value of these shares at 23 March 2015 has been agreed by HMRC at £100,000. Phil originally acquired these shares for £1,000 in October 2011. Club Ltd has issued 50,000 ordinary shares.

(3) Two properties – one used in the trade of Queen Ltd and the other used in the trade of Club Ltd.

The property used by Queen Ltd was acquired in April 2012 for £200,000 and was valued in March 2015 at £750,000.

The property used by Club Ltd was acquired in September 2011 for £100,000 and valued in March 2015 at £175,000. At March 2015, there was an outstanding mortgage of £75,000 on the property used by Club Ltd.

(4) On 23 March 2015, other net assets are valued for IHT purposes at £650,000. This figure is after taking account of the outstanding personal tax liabilities owed by Phil at this date.

Apart from the gifts of shares in Queen Ltd made to his wife and son, Phil has made the following cash gifts during his lifetime to his son:

Date	*Amount*
	£
28.3.2009	46,000
20.6.2009	37,000
11.3.2010	18,000
03.3.2011	211,000

The 20 June 2009 gift was made on the occasion of the son’s marriage.

Under the terms of his will, Phil left £325,000 in cash to his wife with the residue of his estate to his son.

Phil’s son Bradley is planning to sell half of his shares in Queen Ltd in December 2015 and expects to receive £550,000. Bradley has never worked for Queen Ltd, and will make no other chargeable disposals in 2015/16.

Phil was a higher rate taxpayer and Bradley is currently a higher rate taxpayer.

Required:

Prepare the briefing notes requested in the email from your manager.

The marks are allocated as follows.

(a) Inheritance tax calculations and explanations. (16 marks)

(b) (i) Capital gains tax implications (without gift relief).

You should assume that the rates and allowances for 2014/15 apply throughout this part of the question. (7 marks)

(ii) Gift relief explanations. (4 marks)

(c) Deed of variation explanations. (4 marks)

Appropriateness of the format and presentation of the notes and the effectiveness with which the information is communicated. (4 marks)

(Total: 35 marks)

2 An extract from an email from your manager is set out below.

I had a telephone conversation with Daniel Dare (DD), the managing director of Saturn Ltd, first thing this morning. We discussed the anticipated results of the Saturn Ltd group of companies and the proposed acquisition of a majority holding in Tethys Ltd. All the relevant details are included in the attached memorandum.

DD has asked me to call him later this afternoon to go through the tax implications of the various issues. The Saturn Ltd group is not a client; I think DD is just testing us to see whether he would like to use us for tax advice.

I need the following:

Notes that I can use to prepare for my telephone call to DD. I realise that DD did not give me all of the information we need so please identify any additional information that you think could have an effect on our advice.

It is important that you cover all of the points raised by DD; I don't want to end up with detailed answers to some of his questions and no answers to the others. Also, clients often forget about stamp duty and stamp duty land tax so please highlight any such amounts payable by the Saturn Ltd group in respect of the proposed transactions.

Tax manager

The memorandum attached to the email is set out below.

To	Internal filing
From	Tax manager
Date	2 June 2015
Subject	Saturn Ltd group of companies

This memorandum sets out the matters discussed with Daniel Dare (DD), the managing director of Saturn Ltd, earlier today.

Group structure

Saturn Ltd has three wholly-owned subsidiaries; Dione Ltd, Rhea Ltd and Titan Inc. Titan Inc trades in and is resident in the country of Galactica. Titan Inc is not a controlled foreign company. The other three group companies are resident in the UK. Saturn Ltd has owned all three subsidiary companies for many years.

Budgeted results for the year ending 30 June 2015

It is estimated that Dione Ltd will make a tax adjusted trading loss of £187,000 in the year ending 30 June 2015; it will have no other income or capital gains in the period. The budgeted taxable total profits of the other companies in the group are set out below.

	£
Saturn Ltd	385,000
Rhea Ltd	590,000
Titan Inc	265,000

Rhea Ltd paid a dividend of £240,000 to Saturn Ltd on 1 May 2015.

Proposed acquisition of 65% of Tethys Ltd

On 1 August 2015, Saturn Ltd will purchase 65% of the ordinary share capital of Tethys Ltd for £235,000 from the personal representatives of George Jetson.

The whole of the balance of the company's share capital is owned either by Edith Clanger or by her family company, Clangers Ltd; DD cannot remember which.

It is anticipated that Tethys Ltd will make a tax adjusted trading loss of approximately £80,000 in the year ending 31 December 2015.

In early 2016, Tethys Ltd will sell its manufacturing premises for £240,000 and move to a rented factory. The premises were acquired new on 1 May 2004 for £112,000. We agreed that the indexation factor on the disposal can be assumed to be 27%.

Information requested by DD

(i) The maximum amount of tax that can be saved via the use of the loss of Dione Ltd assuming it is not carried forward and the date by which the necessary claims must be submitted.

(ii) The amount of the trading loss of Tethys Ltd for the year ending 31 December 2015 that can be used by Saturn Ltd and the ability of Tethys Ltd to use this loss in the future.

(iii) In respect of the sale of the manufacturing premises:

– Whether or not Tethys Ltd should charge value added tax (VAT) on the sale of the property.

– The taxable profit arising in respect of the sale.

– The amount of the gain that could be rolled over if Tethys Ltd or any of the other Saturn Ltd group companies acquired assets costing £200,000, the types of asset that would have to be purchased and the period during which the assets would need to be acquired.

(iv) Any stamp duty and/or stamp duty land tax payable by the Saturn Ltd group in respect of the proposed transactions.

Tax manager

Required:

Prepare the information requested by your manager.

Your answer should include explanations together with supporting calculations and should identify any further information that you think is required.

The following marks are available:

(a) The amount of tax that can be saved via the use of the loss of Dione Ltd. (8 marks)

(b) The use of the trading loss of Tethys Ltd for the year ending 31 December 2015. (7 marks)

(c) Advice in connection with the sale of the manufacturing premises by Tethys Ltd. (8 marks)

(d) The stamp duty and/or stamp duty land tax payable by the Saturn Ltd group. (2 marks)

You should assume that the tax rates and allowances for the tax year 2014/15 and for the financial year to 31 March 2015 apply throughout the question.

(Total: 25 marks)

SECTION B

TWO questions ONLY to be attempted

3 You have been asked by the board of directors of Blackwood Ltd to advise on the tax consequences of the purchase of 60% of the shares in Argoed Ltd, the transfer of a building from Blackwood Ltd to Argoed Ltd and the purchase of all the shares in Manmoel Inc.

Background

– on 1 January 2016, Blackwood Ltd, a company with no subsidiaries, intends to purchase 60% of the ordinary share capital of Argoed Ltd from Monmouth Ltd.

– Monmouth Ltd currently owns 100% of the share capital of Argoed Ltd and has no other subsidiaries.

– All three companies have their head offices in the UK and are UK resident.

Results

– Argoed Ltd had trading losses brought forward, as at 1 April 2015, of £18,600 and no income or gains against which to offset losses in the year ended 31 March 2015.

– In the year ending 31 March 2016 the company expects to make further tax adjusted trading losses of £70,000 before deduction of capital allowances, and to have no other income or gains.

– The tax written down value of Argoed Ltd's plant and machinery as at 31 March 2015 was £116,000 and there will be no capital asset additions or disposals in the year ending 31 March 2016.

– In the year ending 31 March 2017 a small tax adjusted trading loss is anticipated. Argoed Ltd will surrender the maximum possible trading losses to Monmouth Ltd and Blackwood Ltd.

– The tax adjusted trading profit of Blackwood Ltd for the year ending 31 March 2016 is expected to be £910,000 and to continue at this level in the future.

– The taxable total profits of Monmouth Ltd are expected to be £38,000 for the year ending 31 March 2016 and to increase in the future.

Sale of building

– On 1 February 2016 Blackwood Ltd will sell a small office building to Argoed Ltd for its market value of £242,000.

– Blackwood Ltd purchased the building in March 2014 for £210,000. In October 2013 Blackwood Ltd sold a factory for £281,000 making a capital gain of £87,418. A claim was made to roll over the gain on the sale of the factory against the acquisition cost of the office building.

Purchase of Manmoel Inc

– On 1 April 2016 Blackwood Ltd intends to acquire the whole of the ordinary share capital of Manmoel Inc, an unquoted company resident in the country of Odonia.

– Manmoel Inc sells components to Blackwood Ltd as well as to other companies in Odonia and around the world.

– It is estimated that Manmoel Inc will make a profit before tax of £160,000 in the year ending 31 March 2017. It can be assumed that Manmoel Inc's taxable profits are equal to its profit before tax.

– The rate of corporation tax in Odonia is 9%. There is no double tax agreement between the UK and Odonia.

Required:

(a) Advise Monmouth Ltd of any capital gains that may arise as a result of the sale of the shares in Argoed Ltd.

You are not required to calculate any capital gains in this part of the question.
(4 marks)

(b) Explain by reference to Argoed Ltd's loss position why it may be beneficial for it not to claim any capital allowances for the year ending 31 March 2016. Support your explanation with relevant calculations. (6 marks)

(c) Calculate the expected corporation tax liability of Blackwood Ltd for the year ending 31 March 2016 on the assumption that all available reliefs are claimed by Blackwood Ltd but that Argoed Ltd will not claim any capital allowances in that year. (4 marks)

(d) Explain whether or not Blackwood Ltd, Argoed Ltd and Manmoel Inc can register as a group for the purposes of value added tax. (3 marks)

(e) Explain briefly how the controlled foreign company legislation may affect the tax liabilities of Blackwood Ltd and Manmoel Inc.

You are not required to produce any calculations for this part of the question.
(3 marks)

You should assume that the corporation tax rates and allowances for the financial year 2014 apply throughout this question.

Relevant retail price index figures are:

March 2014	**254.8**
February 2016	**273.9 (estimated)**

(Total: 20 marks)

4 Assume today's date is 25 May 2015.

You have been asked to prepare some corporation tax computations for the Golf Group of companies, and to advise on the proposed sale of a building.

The following information has been obtained from client files and meetings with the client.

Background

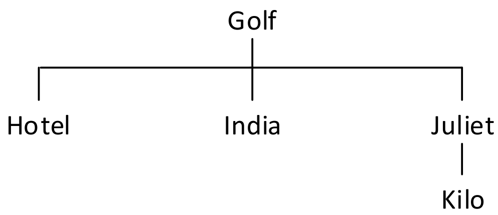
– The Golf Group is based in the UK and produces various types of storage vessels.

– The year end for all companies is 31 March.

– There are 5 companies in the group.

– Golf plc (Golf) is the holding company. Hotel GmbH (Hotel) is a German subsidiary; all the other group companies are UK resident. Golf owns 100% of the issued share capital of each of the subsidiary companies, Hotel GmbH, India Ltd (India) and Juliet Ltd (Juliet). Juliet owns 100% of the issued share capital of Kilo Ltd (Kilo). All the subsidiary companies are trading.

– The group structure is as follows:



Results

– The results for the UK subsidiary companies for 2014 and 2015 are as follows:

Year ended 31 March 2014

Company	*India*	*Juliet*	*Kilo*
	£	£	£
Trading profit	335,000	(40,000)	35,000
Property business income	0	0	30,000
Interest income	0	5,000	2,500
Overseas property income (Note 1)	15,000	0	0
Chargeable gains/losses	25,000	0	0
Charitable donation	15,000	0	0

Note 1: This figure is shown gross of £6,000 withholding tax.

Year ended 31 March 2015 (draft figures)

	£	£	£
Trading profit	215,000	(120,000)	30,000
Property business income	0	0	25,000
Interest income	0	2,000	2,500
Chargeable gains/losses	(40,000)	20,000	0
Charitable donation relief	10,000	0	0

Additional information:

– Golf plc has investment income of approximately £1,000 per year in both years, in addition to dividends received from its subsidiaries.

– India has capital losses brought forward of £45,000 as at 1 April 2013. It is currently considering acquiring a new factory costing £470,000.

Transfer of property

– In February 2003, India bought a property for £300,000. This property was transferred to Kilo for the same amount in March 2009. Its market value at that time was £450,000. This property has always been used for trading purposes.

Sale of property by Kilo Ltd

– In April 2015, the group received an offer from a third party to acquire Kilo Ltd's property for a price of £510,000.

– This is the property that was transferred from India in March 2009.

– The proposed date of sale is June 2015.

Required:

(a) Calculate the UK corporation tax (CT) payable by the subsidiary companies for both accounting periods, making full use of any available reliefs in the most tax-efficient manner and clearly identifying any losses carried forward at 1 April 2015.

You are not required to calculate the corporation tax payable by Golf plc.

(13 marks)

(b) Quantify the potential corporation tax (CT) liabilities arising on the sale of the property by Kilo Ltd in June 2015.

Clearly identify any reliefs available to reduce or defer the tax liabilities arising and explain their effect. (7 marks)

Relevant retail price index figures are:

February 2003	**179.3**
March 2009	**211.3**
June 2015	**260.8 (estimated)**

(Total: 20 marks)

5 You have been asked by your client, Oscar, for some advice regarding the sale of a property and the proposed investment of the proceeds.

The following information has been obtained from a meeting with Oscar.

Sale of Brighton house

– In August 2014 Oscar sold a house in Brighton for £535,600.

– Oscar had inherited the house on the death of his father on 1 April 2001 when it had a probate value of £335,000.

– Details of the occupation of the property are as follows:

1 April 2001 to 30 June 2002	occupied by Oscar and Charlotte as main residence
1 July 2002 to 28 February 2006	unoccupied
1 March 2006 to 31 May 2008	let out (unfurnished)
1 June 2008 to 31 October 2010	occupied by Oscar and Charlotte
1 November 2010 to 31 August 2014	used occasionally as second home

– Both Oscar and Charlotte had lived in London from July 2002 onwards, with the exception of the period living in the Brighton house between 1 June 2008 and 31 October 2010. Oscar was not working in London during the period from 1 July 2002 to 31 May 2008.

– On 1 June 2009 Oscar and Charlotte bought a house in London in their joint names and on 1 January 2011 they elected for their London house to be their principal private residence with effect from that date, up until that point the Brighton property had been their principal private residence.

– No other capital disposals were made by Oscar in the tax year 2014/15.

– He has £5,300 of capital losses brought forward from previous years.

Investment options

– Oscar intends to invest the gross sale proceeds from the sale of the Brighton house, and is considering two investment options, both of which he believes will provide equal risk and returns:

(1) acquiring shares in Trinity plc; or

(2) acquiring further shares in Magdalen plc.

Trinity plc

– Trinity plc is a listed UK trading company, with 25,750,000 shares in issue. Its shares currently trade at 52p per share.

Magdalen plc

– Oscar and Charlotte helped start up the company, Magdalen plc, which was then Magdalen Ltd. The company was formed on 1 May 1997, when they each bought 19,000 shares for £1 per share.

– The company became listed on 1 June 2004. On this date their holding was subdivided, with each of them receiving 100 shares in Magdalen plc for each share held in Magdalen Ltd.

– Oscar anticipates that he can purchase shares at £2.60 per share.

– The issued share capital of Magdalen plc is currently 8,000,000 shares.

– The share price is quoted at 258p – 266p with marked bargains at 256p, 263p, and 268p.

Assets

– Oscar and Charlotte's assets (following the sale of the Brighton house but before any investment of the proceeds) are as follows:

Assets	*Oscar*	*Charlotte*
	£	£
Family house in London	375,000	375,000
Cash from property sale	535,600	–
Cash deposits	72,000	72,000
Portfolio of quoted investments	–	215,000
Shares in Magdalen plc	see above	see above
Life insurance policy	The life insurance policy will pay out a sum of £150,000 on the death of the first spouse.	

Background information

– Oscar is a self-employed writer aged 59. He is married to Charlotte, aged 62. They have one child, Dorian, who is aged 26 and single.

– Oscar has recently been diagnosed with a serious illness. He is expected to live for another two or three years only. He is concerned about the possible inheritance tax that will arise on his death.

– Both he and Charlotte have wills whose terms transfer all assets to the surviving spouse and on the second death all assets are left to Dorian.

– Neither Oscar nor Charlotte has made any previous chargeable lifetime transfers for the purposes of inheritance tax.

Required:

(a) Calculate the taxable gain on the sale of the Brighton house in August 2014.
(7 marks)

(b) Given his recent diagnosis, advise Oscar as to which of the two proposed investments (Trinity plc/Magdalen plc) would be the more tax efficient alternative.

Give reasons for your choice. (3 marks)

(c) Assuming that Oscar:

(i) purchased 206,000 shares in Magdalen plc on 2 September 2014; and

(ii) dies on 30 September 2015,

calculate the potential inheritance tax (IHT) liability which would arise if Charlotte were to die on 1 January 2016, and no further tax planning measures were taken.

Assume that all asset values remain unchanged and that the current rates of inheritance tax continue to apply. (6 marks)

(d) Advise on any lifetime inheritance tax (IHT) planning that could be undertaken in respect of both Oscar and Charlotte to help reduce the potential inheritance tax (IHT) liability calculated in (c) above. (4 marks)

(Total: 20 marks)