

Institution **CIOT - CTA**
Course **Adv Tech Owner-Managed Business**

Event **NA**

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Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	627	3050	3561
Section 2	751	3633	4261
Section 3	483	2120	2550
Section 4	287	1310	1537
Section 5	1028	4577	5570
Section 6	540	2575	3072
Total	3716	17265	20551

Answer-to-Question-__1__

Part 1

Year ended 31 March 2025 for Greenfingers LLP

Partner allocation:

			Hanshan £	Millie £	Sandstone Ltd £	
Tax adjusted profit for YE 31/03/25	137,442	137,442				
Interest on capital	150,000 x 10%	(15,000)			15,000	
Balance	Split 40:40:20	122,442	48,977	48,977	24,488	
		137,442	48,977	48,977	39,488	
Reallocate excess profit share	Note: a)		15,994	15,994	(31,988)	
Profit share			64,971	64,971	7,500	

a) Sandstone Ltd is a corporate partner the anti avoidance rules in s.850C of ITTOIA2005 and excess profit allocation need to be reviewed.

Either condition x or condition y need to be met

condition x - is that either Hanshan or Millie profit shares are reduced by way of Sandstone Ltd having a larger share of the profit. Whilst Sandstone only has a 20% profit share compared to the 40% that each Handshan and Millie have it could be argued that Sandstone is already receiving a greater profit share by way of a large interest on its capital.

The notional profit is determined by a commercial rate of return on Sandstones capital invested and the value for any services provided.

Taking a commercial return as 5% Sandstones notional profit should be £7,500 (£150,000

x 5%).

The excess is therefore reallocated to the individual partners.

condition y - it is unclear whether either Hanshan or Millie have the ability to enjoy profits in Sandstone Ltd - it is assumed that neither are shareholders and that this does not apply.

Tax adjusted profit

	Notes			£	
Profit per accounts				61,500	
Add back:					
Depreciation	1		22,000		
Capital items	2	45,000 + 1,750	46,750		
Staff costs	3		2,000		
Interest payable	4		15,000		
Premises	5	43,750 x 10%	4,375		
				90,125	
Deduct:					
Pension contributions paid in period from 31/03/24	3		1,500		
				(1,500)	
Profit before capital allowances				150,125	
Capital allowance	6			(12,683)	
Tax adjusted profit				137,442	

Notes:

1) depreciation is specifically disallowed. The amortisation of the software will also be disallowed, the software is an item eligible for capital allowances as plant and machinery.

2)The new digger and the shed will be capital and therefore added back, these are dealt with via capital allowances.

3) employee bonuses are allowable as they have been paid within 12 months.

The pension contributions are disallowed, they are only allowed when paid and these have been paid after the year end.

The pension contributions paid in the year but accrued in last years accounts will need to be deducted as they are allowable in this period.

4) the interest paid to Sandstone Ltd will not be allowable as they are a partner in the LLP, this will be drawings.

5) the workshop is used privately therefore the private element needs to be added back

6)Capital allowances:

	Notes	Main pool £		Total allowanc es £	
TWDV b/fwd		10,280			
Additions:					
Digger		45,000			
Software		15,000			
		70,280			
WDA at 18%	N1	(12,650)		12,650	
SBA	N2			33	
				12,683	

Notes:

N1 Mixed partnership - therefore no AIA allowed.

N2 SBA on the shed from date in use as a structure - $1,750 \times 3\% \times 7.5/12 = 33$

Although located at Hanshans private residence, as long as there is no private use the SBA is allowed as it is not a dwelling.

Part 2

Sandstone Ltd - corporation tax

The corporation tax liability of £56,258 is payable by 1 October 2025.

				£
Total taxable profits				140,000
Profit share of:				
31/03/24	72,000 x 3/12		18,000	
31/03/24	N1	4,815 x 9/12	3,611	
				86,445
				226,445
Corporation tax	at 25%			56,611
	Marginal relief	3/200 x (250,000 - 226,445)		(353)
Corporation tax liability				56,258

N1)

Sandstone Ltd can claim AIA on its share of the capital additions this is calculated as follows:

				£
Profit share 31/03/25				7,500
Add back WDA at 18%	15,000 + 45,000 x 18%	x 7,500/137,442	589	
Deduct AIA at 100%	15,000 + 45,000	x 7,500/137,442	(3,274)	
				4,815

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

Sale of business

Option 1 - sell shares

The sale of the shares by John in the tax year 2025/26 will be a capital disposal subject to capital gains tax (CGT).

The CGT of £210,400 (below) will be payable by 31 January 2027.

Johns net proceeds will be £1,519,600 under this option.

Consideration £1,730,000 less CGT paid on sale of shares £210,400

The capital gain will be:

		Notes		£
Proceeds	Market value consideration			1,730,000
Base cost	Value when inherited	1		(175,000)
Chargeable gain				1,555,000
Annual exempt amount		2		(3,000)
				1,552,000
CGT at 10%	1,000,000 x 10%			100,000
CGt at 20%	552,000 x 20%			110,400
Total CGT				210,400

Notes:

1) when assets are inherited, the individual inherits them at the market value at the date of death, which was £175,000.

2) as John will make no other capital disposals he can deduct his AEA, annual exempt amount from the gain.

3) BADR

John is making a material disposal of business assets, being the share in Johns Joinery Ltd.

John qualifies for BADR because he owns more than 5% of the shares and works for the company as a director, both of which has been the case for longer than 2 years.

BADR has a CGT rate of 10% on qualifying gains up to the lifetime limit of £1,000,000.

The excess will be subject to Johns usual CGT rate which will be 20% as the BADR gains use up any remaining basic rate band for 10% gains first.

The annual exempt amount is deducted from the gains at the higher amount.

Option 2 - sale of trade and assets

The sale of the trade and assets (T&A) will each be dealt with separately and be taxable by the company.

The following gains will be incurred:

	Notes		£	Taxable £		
<u>Goodwill:</u>	1					
Proceeds			700,000			
No cost				700,000		
<u>Freehold property</u>	2					
Proceeds			800,000			
Cost			(450,000)			
Indexation		50% x 450,000	(225,000)			
			125,000			
				125,000		
Total gains				825,000		

Notes

1) the company did not acquire the goodwill after April 2002 and therefore this will be a

gain on disposal. There is no cost to deduct as the goodwill has been internally generated.

2) The freehold property disposal will incur a gain for the company. the gain is calculated as the proceeds less cost. Companies can also deduct indexation when calculating gains, indexation cannot create a loss.

3) the P&M will be dealt with via capital allowances, see below.

4) the stock will be disposed of through the profit and loss, see below.

Tax adjusted trading profit for the year ended 31 March 2026:

the final corporation tax will need to be calculated.

	Notes			£
Estimated profit				165,250
Stock disposal	a)			80,000
Capital allowances	b)			(10,000)
				235,250

Notes:

a) The stock will be disposed of at the market value consideration received, as this is the same as cost.

b) capital allowances

In the period of cessation there are no writing down allowances or AIA/FYA. Only balancing adjustments.

	Notes	Main pool £	Special pool £	Total allwoances £
TWDV bfwd		45,000	12,500	
Additions:				

Laptops		6,000		
Disposals:				
P&M - T&A sale	Below	(50,000)		
Office equipment	Below	(3,500)		
		(2,500)	12,500	
Balancing charge		2,500		(2,500)
Balancing allowance			(12,500)	12,500
				10,000

No super deduction has been claimed, therefore proceeds are deducted from the pool.

As the proceeds for both the office equipment and the P&M sold in the T&A sale are less than the original cost this is the value deducted.

Corporation tax for the period ended 31 March 2026

			£
Trade profit to cessation			235,250
Gains			825,000
Total taxable profits			1,060,250
Corporation tax at 25%			265,063

Company will receive the proceeds of £1,730,000, out of which it will pay the corporation tax of £265,063, leaving net cash in the company of £1,464,937.

The company will have a total value of:

			£
Trade debtors			25,000
Cash			120,000
Cash from sale	Above		1,464,937
			1,609,937

Then the company will be wound up, funds distributed to John.

This would then be distributed to John as a capital distribution upon winding up the company.

John would pay CGT of:

		BADR gains limit £	Non BADR gains £	Total
Capital distribution		1,000,000	609,937	
Base cost			(175,000)	
Chargeable gain			434,937	
Annual exempt amount			(3,000)	
Taxable gain		1,000,000	431,937	
		100,000	86,387	
Total CGT				186,387

John will have net proceeds of:

Cash extracted from company			1,609,937
Less CGT			(186,387)
			1,423,550

Net proceeds

Option 1 - share sale £1,519,600 under this option.

Vs

Option 2 - T&A and extraction £1,423,550 under this option.

It would be preferable for John to dispose of his shares.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3

Part 1

Errors in 2022/23

- 1) Kay should have disallowed private use from her fuel expense at 25% being £1,687.
- 2) the expenditure of fuel for Ruth is fully allowable as she is an employee. Kay should have however declared the car as a benefit for Ruth with both the car and the fuel benefit being subject to class 1A NIC.

This should have been submitted on P11d by 6 July 2024.

The car benefit is:

List price £22,500 x 21% (note) = £4,725 x 3/12 = £1,181

Fuel benefit

£27,800 x 21% (note) x 3/12 = £1,460

Note: Percentage is calc from CO2 emissions as $(80-75)/5 + 20$

Total benefit value = 1,460 + 1,181 = £2,641

Class 1A not paid/returned of £364 (2,641 x 13.58)

3) the meals and overnight stays are allowable provided they are for the pupose of the trade. However, Kays meals are not allowable as the sole trader. £1,500 should have been disallowed.

4) capital allowances

Kay should have had her car in a special rate pool with a private use restriction as it has high CO2 emissons and private use.

Ruths car should have also only had WDA of 8% as it also has high emissions.

5) Kay paying her 5 year old son would not be a deductible expense, it is assumed that he is unable to perform duties worthy of such a wage and therefore this is not allowable.

Her correct profit is therefore

22/23			£		
Trade profit			69,475		
Add back:					
Fuel private use	1	1,687			
Kay meals	3	1,500			
Wages to son 625 x 12	5	7,500			
			10,687		
Deduct:					
Class 1A NIC	2	364			
			(364)		
Adjustment to capital allowance $35,000 \times 6\% \times 75\% = 1,575$ $22,500 \times 6\% = 135$ Total 1,710	4		8,640		
Compared to £10,350 claimed on the cars					
			88,438		
Personal allowance			(12,570)		
			75,868		
$37,700 \times 20\%$			7,540		
$75,868 - 37,700 \times 40\%$			15,267		
Class 4					
0 - 12,570 x 0%			0		

Errors corrected

Kay should disclose the errors to HMRC as soon as possible in writing.

she is outside of the window to amend the 22/23 tax return as this closed on 31/01/2025.

When making the disclosure to HMRC Kay should provide all of the facts and cooperate fully, this may help in reducing her penalties.

Penalties

Penalties for errors are based upon the potential lost revenue and the behaviour of the tax payer.

kay will also be subject to a penalty for a missed return on the P11d as this has passed its due date.

Kay did not take any advice despite having limited tax knowledge. This could be argued as careless behaviour.

It does not appear that Kay acted deliberately.

The penalties are reduced depending on whether they are prompted or unprompted.

The actual amount of the penalty will depend on how cooperative Kay is with HMRC>

	Standard amount	Unprompted	Prompted	
Carless behaviour	30%	0%	15%	

-----ANSWER-3-ABOVE-----

 -----ANSWER-4-BELOW-----

Answer-to-Question- _4_

Part 1

Taxable trading profits for the year ended 31 March 2025:

Under cash basis:

				£	
Net profit per accounts				41,725	
Adjustments for cash basis:					
Sales: Adjust for invoiced but cash not received	55,000 - 48,000			(7,000)	
Insurance: adjust for amount prepaid - paid	1,600 - 400			(2,000)	
Bank overdraft - all paid in year				0	
Second hand van - no adjustment as allowed under cash basis				0	
Artwork remaining income to be declared				4,000	
HP payments - add back AIA net of HP instalments cash paid	(9,000)-6 x 375			6,750	
HP - deduct cash payments in the year	12 x 375			(4,500)	
Full main pool allowed on change to cash basis				(8,000)	
Taxable trading profit : cash basis				30,975	

Under accruals basis:

				£	
Draft profit and loss - net profit				41,725	
Add back:					
Capital expenditure - van			11,000		
Artwork - remaining income			4,000		

Insurance - prepayment included			0		
				15,000	
Deduct capital allowances:					
AIA on van 11,000 x 100%			11,000		
WDA on main pool 8,000 x 18%			1,440		
				(12,440)	
Taxable trading profit : accrual basis				44,285	

It is more beneficial for Farid to elect to use the cash basis as his taxable trading profit is £30,975 which is less than that of the accruals basis £44,285.

Part 2

Farid income tax and NIC liability 2024/25

		Non savings income £			
Taxable trading profit		30,975			
Personal allowance		(12,570)			
		18,405			
Income tax at:	20% x 18,405	3,681			
National insurance:					
0 - 12,570	0%	0			
30,975 - 12,570	6%	1,104			
Total income tax and NIC		4,785			
Less payment on account	3,000 x 2	(6,000)			
Tax refund		(1,215)			
Payment on account for 2025/26	4,785 x 1/2	2,392			
Payment due 31 January 2026		1,177			

Payment due 31 July 2026	4,785 x 1/2	2,392		

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question- 5

Part 1

A close company is one that is controlled by 5 or fewer participators, or is controlled by its directors. As defined in s.439 of CTA 2010.

Controlled by 5 or fewer participators:

A participator is someone who has a share or interest in the capital of a company. This also includes a participators associated who are the participators relatives.

Relatives includes, brothers, sisters, spouses, parents and children.

Max is the largest shareholder, his associates will include Paul his son, but not his partner Jenny as they are not married.

Together Max and Paul have 1,400 share capital, he

The next participators in order of sharehold are:

John Wallace has 1,000

Jenny Smith has 1,000

Martha Bubb 750

Fiona Maxwell 750

The above 5 participators, possess between them 4,900, which is not a controlling shareholding.

The company is not a close company on this basis.

Controlled by its directors:

The directors possess 5,500 out of 10,000 and therefore control the company with 55% of the share capital, which is in excess of 50%.

Under s.452 CTA 2010, a director is someone who instructions or directions the directors are accustomed to act.

Phil whilst not a director by title, Phil is acting like one in attending the meetings and it treated like one by playing an active role and therefore will be considered a director for this purpose as the other directors are acting on his behalf

			No shares
Max			1,200
John			1,000
Martha			750
Karen			700
Sarah J			650
Sarah G			650
Phil Harper			550
Total share capital			5,500

Part 2

Loans made to:

As a close company, loans to participators are subject to the s.455, loans to participators legislation.

Phil

s.455

Phil is a participator through his shareholding.

The company has lent phil £42,000 at an interest rate of 1%.

The loan was advanced to Phil on 1 May 2020, this would have been subject to s.455 penalty tax which at the higher dividend rate rate applicable in 2020/21, assumed to be 33.75% as it is for 2024/25 being £14,175 (£42,000 x 33.75%)

The company will have had to pay the s.455 tax on the balance outstanding t the usual corporation tax due date for the year end in which the loan was advanced. This would have been paid 1 December 2021, 9 months and 1 days from the year ended 28 Feb 2021.

As the loan has remained at this level ever since there is no change to the s.455 tax paid until the loan is repaid or written off.

This is a withholding tax and is reclaimable by the company at the usual due date for the year in which the loan is repaid or written off.

If the loan is waived on 28 Feb 2026, the s.455 tax of £14,175 will be reclaimable by the company. The company will need to complete form L2P to reclaim the tax, this would be refunded by 1 December 2026.

However, if the loan is waiver on 31 March 2026, this is within the period of account ending 28 February 2027, therefore the repayment would not be due back to the company until 1 December 2027, a whole year later.

The waived loan will not be tax deductible by the company in the acocunting period it is written off, this is because it is a distribution to Phil.

Phil will be assessed on the whole value of the loan in the tax year it is written off as a dividend distribution , taxed at his marinal rate of tax of 33.75% as he is a higher rate tax payer.

The company will pay secondary class 1 NIC on the loan written off of £5,796, £42,000 x 13.8%.

Benefit

As an employee Phil has also received a benefit in kind, being the provision of a low interest loan.

The benefit is calculated at the amount of interest at the ORI, official rate of interest, 2.25% less the amount of interest charged being 1%.

This means that 1.25% of the loan balances will be assessable as a benefit in kind on Phil for each tax year the loan is outstanding, this is apportioned if the loan is repaid before the end of the tax year, which would be the case if it were to be waived on 28 Feb 2026 instead of 31 March 2026.

For a whole tax year:

Phil will be subject to income tax at 40% on the value of the benefit each tax year, being £525 (£42,000 x 1.25%). he will pay income tax at 40% £210. But will not be subject to NIC. Phil would need to report this on his self assessment tax return.

The company will be required to pay Class 1A NIC on the value of the benefit which is at 13.8%, this would be due by 6 July following the end of each tax year.

Loan benefits cannot be payrolled.

Fiona

s.455

Fioan was lent £100,000 on 31 Decmeber 2023, Fiona is a participator as she holds 7.5% shares in the company.

By the year ended 28/02/24 the balance of the loan remained unchanged at £100,000.

By the due date of 1/12/24 Fiona had repaid £40,000 on 15 November, leaving £60,000 outstanding.

There are provisions that where repayments are made and further advances of the loan are subsequently taken either 30 days before or after the repayment then the repayment is first matched to the new advance. This is called B&B rules.

The company advances a further £30,000 to Fiona within this time frame therefore the repayment is only £10,000.

Has this of been repaid from a dividend from the comapny it would have been matched to the opening balance of the loan and not been impacted by the further withdrawal. However, the repayment was from Fionas own funds.

The company will therefore pay s.455 on the balance of £90,000, being £30,375 (90,000 33.75%). This will be payable by 1/12/2024.

The s.455 tax will be repaid when Fioan repays the loans and the company will obtain the refund as desribed aboe for phil.

Benefit

There is no benefit as Fiona has been charged interest at the official rate of interest.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- 6

Post cessation transactions:

ITTOIA 2005 s 256 deals with the post cessation receipts where an individual has permanently ceased trade and income arising from the trade is taxable as relevant earnings in the year of receipt.

Steve ceased in the tax year 2023/24.

He has since received £10,000 for a debt that had not been subject to tax in any other period, as the debt had been written off. s.248 specifically lists the receipt of bad debts written off as a post cessation receipt.

Steve can elect to carry any post cessation receipts back to the year of cessation being 2023/24 if this is beneficial.

Post cessation expenses are deductible from post cessation receipts to the point that they would have been deducted from trade profits if the person had not ceased to trade.

The expenses incurred:

Debt collection fees, this would be allowable in a continuing trade, even though the debt was written off, and therefore will be a post cessation expense.

Legal fees - the legal fees are in relation to a claim for faulty workmanship, in a continuing trade, this would have been an allowable expense, and therefore will be a post cessation expense.

physiotherapy - this would not have been deductible by Steve as it would have duality of purpose and would not have been wholly and exclusively for the trade, as he is the sole trader in this case, the expense is not a post cessation expense.

However, s.255 does not allow a deduction of post cessation expenses as above, from bad debts paid after cessation.

Therefore the £10,000 remains taxable as a post cessation receipt. No relief is obtained from the post cessation expenses.

Steve could elect to carry this back to the year of cessation as it is within 6 years of cessation, however as his income is below the personal allowance in 2024/25 he would be better of taxing the £10,000 post cessation receipt in 2024/25 than carrying back.

	2023/24 £	2024/25 £	Total £
Trade profit	30,000		
Pension		3,000	
Post cessation receipt		10,000	
	30,000	13,000	
Personal allowance	(12,570)	(12,570)	
	17,430	430	
Income tax at 20%	3,486	86	3,572

Alternative option:

Steve is still within the window to amend his tax return for 2023/24 as the amendment window is until 31 January 2026, a year following the due date.

Therefore Steve could amend 2023/24 to obtain relief for expenses for the debt collection fees and legal fees discussed above. If this is the case Steve should also include the receipt of the bad debt as this is now known not to be a bad debt.

Steve would pay CGT on the sale of his shares - this is not impacted by his post cessation transactions.

It would be more beneficial for Steve to amend 2023/24 to bring in the post cessation expenses as accruals and provisions along with correction of the bad debt write off.

Over the two years he would only pay Income tax of £1,086 compared to £3,572 if the post cessation receipt is taxed.

Tax position:

	2023/24 £	2024/25		

Trade profit		30,000			
Less expenses post cessation		(22,000)			
plus removal of bad debt		10,000			
Taxable trade profit		18,000			
Pension			3,000		
Personal allowance		(12,570)	(12,570)		
		5,430	0		
Tax at 20%		1,086			