

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

Event **NA**

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Answer-to-Question-_1_

part 1

Incorporation of sole trade: via gift of shop and flat.

Capital gains Tax

as she will hold over 5% of the new incorporated company, it is a connected transfer.

therefore all assets will be deemed to be sold to the company at market value.

the default CGT position will therefore be as follows;

	Shop and Flat £	Goodwill £	
Proceeds deemed MV	190,000	385,000	
Cost	(140,000)	(96,000)	
gain	50,000	289,000	
Annual Exempt Amount		(12,300)	(assumed no other disposals in the year)
Total Taxable Gains	50,000	276,700	
@10% BADR @20% Non- BADR	5,000	55,340	no BR Band remaining (this would have been against the BADR)

			qualifying gains anyways)
total	60,340		

The goodwill will not qualify for BADR as she will hold more than 5% of the new company and the trade is continuing.

The shop and flat will qualify for BADR as it has been held and used in her sole trade for 24 months preceding the sale date. There is no restriction on the flat 50% proportion as it is a sole trade and not partnership or company associated disposal.

BADR (Business asset disposal relief), must be claimed and allows qualifying capital gains to be taxed at 10% instead of 20%. As this is a material business disposal, and the shop/flat was used in the sole trade for 24 months Veronika will qualify.

As she has gifted the assets, a joint election can be made within 4 years to defer the gains on the above against the base cost of them in the company. This is restricted to current business assets over/ total business assets (CBA/CA), on the basis it will all qualify;

""			
Total Gains	50,000	289,000	
Gift Relief	(50,000)	(289,000)	
total taxable gains	0	0	

the effect of this will mean the base cost remains as it was for Veronika i.e.

Shop/Flat @ £140,000
 Goodwill @ £96,000

no incorporation relief as she has retained the factory. There will also be no capital gains tax on the retained factory.

any capital gains arising in this 2022/23 tax year will be reportable via self-assessment return and payable both by 31 January 2024.

The BADR election must be made via the self-assessment tax return within 1 year and 10 months following the end of the tax year.

when the factory is sold the BADR associated disposal relief will be restricted due to full MV rent being charged to the company.

Income Tax

sole trade deemed to cease on 31 december 2022.

when incorporating, as the plant and machinery have a value of £32,000 it is recommended to make a joint claim to transfer these at tax written down value of 0. This is because should these go over at market value this will cause a balancing capital allowance charge, meaning greater closing year profits on the sole trade at potentially 45% instead of 19-25% in the company.

any stock transferred will also be chargeable to trade profits, unless an election is made for it to be transferred at cost.

closing year rules apply - though as veronika has always had a march year end there will be no overlap profits.

the closing year will be 2022/23.

the profits from period 1 april 2022 to 31 December 2022 will be charged to income tax at 40% as Veronika is a higher rate taxpayer.

from 1 January 2023, the only income charge to income tax will be dependant on her extraction of profits from the company, the total profits will no longer be taxed fully to income tax as they were in the sole trade.

her salary will have tax deducted at source, depending on her PAYE tax code this will be at the same non-savings tax rates as her self-employment 20/40/45 with personal allowance if her

income falls below £125,140.

the dividend received on 31 March 2023, will also be taxable arising in the 2022/23 tax year.

According to the dividend allowance of £2,000 at 0%, basic rate 8.75%, higher rate 33.75% and additional rate 39.35%.

dividends are taxed after non-savings income.

rental income will be subject to non-savings rates of income tax also, these will not be put through PAYE/payroll returns, as there is no NIC.

as she has gifted the assets a proportion of the value will potentially be allowed to be drawn from the directors loan account free of income tax.

a self assessment tax return due 31 January is still applicable as she will have dividends and rental income.

payment of income tax is due 31 January following the end of the tax year.

if under 80% of the liability is covered by tax at source, and is over £1000, payments on account will need to be paid.

part 2

IHT

the sole trade qualified for 100% BPR (business property relief).

After incorporation the shares in the company will qualify for 100% BPR.

However, as the factory was retained for personal use this will reduce the BPR from 100% to 50%.

to qualify for BPR, it must be a business asset owned for 2 years.

NIC

Veronika will stop paying Class 2 and 4 NIC on the total profits of the trade.

Class 2 weekly £3.15 will stop on 31 December 2022.
The final class 4 payment will depend on her sole trade profits in the tax year.

She will now be paying Class 1 primary as an employee and Class 1 secondary as an employer, this will be deducted at source via the payroll system.

When she reached state pension age her class 1 primary will cease, however the class 1 secondary (payable by the employer) will not.

Class 1A will be on any employee benefits like car benefit. (Via P11D) payable 22 July following the end of the tax year.

Class 1B will be on any trivial benefits, like a christmas party over £150 each year. (Via PSA) payable 22 October following the end of the tax year.

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

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

Answer-to-Question-_2_

part 1

the income received from the hotel guide ltd would be treated as income from a relevant engagement as under off-payroll guidelines Claire will be deemed an employee if her company structure was not there.

this is because the main indicators will have been met as follows:

mutuality of obligation - she is obliged under contract to do her work the way the hotel wishes her to do it

personal service - she cannot send a substitute

control - she has no control over her weekdays, and holidays must be agreed in advance

other factors - frequency, the majority of her week will be there (4 days).

The company will be deemed to be small as it qualifies 2 out of the 3 following conditions;

less than 10.2 million in turnover (not met with 15.2 million)
less than 5.1 million in assets (met with 4.2 million)
less than 50 employees (met with 35 employees)

Therefore, it is up to Claire to determine her work status and deal with the deemed employment rules.

The calculation is as follows in steps;

Starting point = **56250**

Step 1

deduct 5% from off-payroll income

6250×9 remaining months of 2022/23 = 56250

$56250 @ 5\% = 2812.5$

Step 2

add payments made directly to the worker

there were no payments directly given to her from when she stopped working

Step 3

deduct expenses usually allowed if employee i.e.

subscription to professional body = £300

training course assumed for cpd reasons, not usually a employees deduction, therefore left out. capital, making new skills, hence disallowed.

Step 4

deduct capital allowances (CAs)

Addition			
laptop	1500		
new laptop	2000		
disposal			
laptop	1000		
total	2500		

Step 5

deduct pension contributions

$1000 \times 9 = 9000$

Step 6

Deduct ER NIC 100/115.05

$56250 - 2812.5 - 300 - 2500 - 9000 = 41637.5$

$$41637.5 \times 115.05/100 = 47904$$

$$47904 - 41638 = 6266$$

(assuming no employers allowance available)

Step 7

deduct salary and benefits already paid to the worker

reimbursed travel would be also classed as earnings as it is to her usual place of work being the hotel. therefore her salary would be;

$$1000 + (9 \times 1500) = 14500$$

personal tax return fee of 400

not the private medical at this stage due to it not being in the 2022/23 tax year.

$$41638 - 6266 - 14500 - 400 = 20472$$

Step 8

deduct ER NIC on the deemed payment

on salary

$$(14500 - 9100) @ 15.05\% = 813$$

$$400 @ 15.05\% = 60$$

$$\text{making the deemed payment} = 20472 - 813 - 60 = 19599$$

Step 9

pay tax and NIC on the deemed payment

as the tax code is 1257L:

$$19599 - (12570/12 \times 9) = 19599 - 9428 = 10171$$

$$(37700/12 \times 9) = 28275 \text{ BR Band ie. } 10171 @ 20\% = 2034$$

NIC would be annual as she is the director
 $19599 - (11908 \times 9/12) = 19599 - 8931 = 10668 @ 13.25\% = 1414$

Total PAYE and Class 1 NIC payable by towering media Ltd on the deemed employment is

PAYE = 2034
Class 1 primary NIC = 1414
Class 1 secondary NIC = 813
Class 1 A = 60

total = 4261 paye and class1 NIC + 60 Class 1A NIC (p11D benefit)

part 2

adjusted profits before CAs			45,500
Less:			
Class 1 secondary		813	
class 1A		60	
deemed employment		19,599	
sterling stories income already taxed		6,500	
			(26,972)
CAs			(2,500)
total taxable			16,028

$£16,028 @ 19\% = £3,045$

ctax due for the year ended 30 june 2023, payable by 1 April 2024.

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

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

Answer-to-Question-_3_

part 1

Calculation of tax adjusted loss for 2022/23

	Note	£	£
Loss for period			(63,400)
Add back:			
cost of sales	1		
staff costs	2	0	
premises costs	3	5,500	
repairs and consumables and office costs	4	0	
travel costs	5	4,356 2,880 1,200	
entertaining	6	2,400	
sundry expenses	7	0	
depreciation - disallowable		4,800	
			21,136
Capital Allowances			14,600
Balancing charge			
<u>overall tax adjusted loss</u>			<u>(27,664)</u>

1 - cost of sales

As it is sale of goods of stock, i.e. bicycles, there is a restriction when the stock is gifted to connected parties or used personally.

This will be deemed disposal at market value and added to the profit/(reduce the loss).

2 - staff costs

assumed these costs do not exceed 3 times the statutory redundancy payments per employee. If this is the case the excess will have to be added back.

3 - premises costs

as it is based on the accruals basis and the trade has ceased, the extra 12 months is disallowed.

4 - repairs and consumables and office costs

these are allowable expenses

5 - travel costs (all for Pierre no EE involved)

as it is leased, and it has CO2 emissions of over 50g/km there is a 15% restriction on the car lease of £6,600 this is further reduced by the private use of 60%

i.e. the allowable expense of the lease is $£6,600 \times 85\% \times 40\% = 2244$

$6600 - 2244 = 4356$ disallowed

60% of the running costs are disallowed also = $4800 \times 60\% = 2880$

50% running costs for the bike are also disallowed as a proportion of private use = $2400 \times 50\% = 1200$

6 - entertaining

even though 1 staff member attended as it was client entertaining and supplier entertaining this is fully disallowed.

7 - sundry expenses

as they had the company's logo on and were not food, drink or tobacco these are allowable costs.

therefore no add back

8 - capital allowances

as this is the year of cessation, there will be no AIA, FYA or WDAs applicable.

Only balancing allowances and charges.

	Note:	Main Pool	Special Rate pool	
twdv @ 1/4/22		0	0	
disposals:				
motor bike	9	(4,600)		
workshop equipment	10	(6,000)		
air conditioning			(4,000)	
total		(10,600)	(4,000)	
balancing charge	14,600			

air conditioning is a special rate asset, as the landlord agreed to pay £4000 it is deemed disposed of this value.

9 - motorbike is a main pool item, the lower of cost and market value is deemed disposal.

10 - assumed all qualifying for general pool hence lower of cost and MV = 6000

as the overall loss for 31 December 2022 is £27,664

due to the closing year rules, this is increased by overlap relief of £16,000

therefore making the total loss available for terminal loss relief

$$27664 + 16000 = (£43,664)$$

part 2

	2019/20	2020/21	2021/22	2022/23
sole trade profit	36,000	7,000	0	0
rental	15,000	15,000	15,000	15,000
s72 loss	(10,164)	(22,000)	(15,000)	

he can use it against current year net income - all or nothing, before personal allowances

carry back to use against previous years net income - all or nothing, before personal allowances

terminal loss can be carried back over the previous 3 years - all or nothing, before personal allowances, though as there is more income less personal allowance is wasted.

the final 12 months of losses of £43,664 and 3/12 of £14,000 i.e. £3500 + 43664 = 47164 can be carried back against net income on a LIFO basis as shown above, up to 1 January 2019

last option is best as it will not waste as much personal

allowance.

must claim the loss by 31 january follwoing the tax year int he self-assessment return.

or by the anneversary of this time when the amended return deadline is i.e. 31 January 2025.

should he have any capital gains, the extension to s64 current year or carry back can be made, thought the

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

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

Answer-to-Question- _4_

The introduction of the limited company into the LLP will turn the LLP into a Mixed partnership that is limited.

NIC

The NIC position will remain the same for Adam and Ellie at Class 2 and Class 4 accordingly.

For Kate, once she becomes a partner she will have a share of the profits, on these Class 4 will need to be paid also if the profit share is greater than £11,908. She will also be due to pay Class 2 like Adam and Ellie at £3.25 a week from date she became partner (if profits are over £6,725 per annum).

Kate will need to make sure that she is not hitting the annual maximum NIC, as she will likely be paid a salary from the company. Both Test 1 and Test 2 of the annual maxima rules will need to be applied and relevant adjustments made.

There is no Class 2 or 4 NIC payable by the company or Anil.

Other Tax

Mixed partnerships are unable to use the cash basis or flate rate schemes.

They will also not be eligible for Annual investment allowance for capital allowance purposes.

This is likely to affect the profit of the partnership, where more profit is now taxable.

IT

The profit allocations will be based on the percentage

shareholding by each entity.

The individuals will be taxed to income tax as it is still transparent, on the full profit share; this will be on current year basis for Adam and Ellie, and first year rules for Kate i.e. profits apportioned and deemed to be from 1 December 2023 - 31 March 2024.

actual year basis rules apply from 2023/24.

35% Adam and Ellie and 15% Kate - income tax rules apply and payment date is the 31 January following the end of the tax year (and 31 July if payments on account are due)

CT

The 15% profit share to the company will be based on corporation tax rules, and will be prorated to fit the accounting period of the company

i.e. 31 December 2023 will include 1 month's worth of the 1/4 months of the profit share it will have for the partnership from 31 March 2024, and for 31 December 2024 it will include the remaining 3 months and 9 months for the year end profits for 31 March 2025.

the corporation tax payment date will be as usual for the company on 1 October following the end of the December accounting period.

CGT

capital gains tax may be payable by Adam and Ellie as they are disposing of their 15% share of the partnership each. Therefore, if any assets like goodwill or land and buildings have been revalued since they made the LLP, the proportion of these less their 15% proportion of their base costs will be subject to CGT. BADR may be available on this. They will have their Annual Exempt Amounts to further reduce this if applicable.

the other partners, i.e. Kate and the company will each generate their own base cost of the company assets at this time (1 December 2023).

Anti-Avoidance Tax implications

With Mixed partnerships there are some anti-avoidance rules, due to the tax being potentially lowered by way of the corporate partner with 19/25% tax rates.

profit allocation restriction

applies where:

if any of the partners have a way to enjoy the company partnership shares (yes, as kate can get dividends from the company profits and salary)

connection to the company (yes via KATE and her connected husband Anil)

there is a loss of tax (yes should the partnership profits be high the corporation tax will be at 25% instead of individuals tax at 45%)

the effect of this would be to only have the notional profit, i. e. the it supplies the company brings for free (the market value of this, not 2 times the market value as said) will be the notional profit.

the remainder will be taxed on Kate as if she had the profit share, this is because she is connected by way of her owning 50% and her husband owning the other 50%, as it is her husband giving the IT work the notional profit is not further reduced.

as no capital was introduced by the company, no capital interest can be added to the notional profit chargeable to CTax rules and rates.

loss allocation

should the partnership make a loss, it is restricted should it be contrived to allow the partners to use the losses in a more flexible way than the company.

does not seem as though it would apply here should they be making profits.

transfer of income streams

if the LLP was set up so that the partner can benefit from selling the share to the company for a loan account, or for received a salary instead of partnership share. this will apply, and the deemed payment will be said to be the higher rates of tax applicable.

in this case it is unlikely as Yoga IT Ltd

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

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

Answer-to-Question-_5_

part 1

Associated companies are those in which over 50% of the ownership is the same.

the connected persons rules for associates with companies do not extend to brothers and sisters only direct descendants and the own individuals spouse/civil partner.

They are associated due to this fact.

Because of this the AIA limit of £1,000,000 is restricted for each by 3 times for each i.e. £333,333 each.

Additionally the tax rate bands of:

<50,000 19%
between 50,000 and 250,000 @19 - 25% (effective rate of 26.5%)
above 250,000 @25%

are proportioned accordingly, this means that the augmented profits for each have to be below £16,667 for 19% tax rates in the ap.

due to the increased rates, DE Designers Ltd are likely to pay higher corporation tax on their total taxable profits, and have less flexibility with the capital allowances they can claim.

part 2

Corporation tax computation for period from 1/2/2022 - 31/5/2023

Companies accounting periods do not start at incorporation, and do not last longer than 12 months therefore the accounting periods are as follows:

1/2/22 - 31/1/23 = 12 months
 1/2/23 - 31/5/23 = 4 months

the capital allowances computations for these will be as follows.

1/2/22 - 31/1/23 = 12 months

	FYA 50%	FYA 130%	AIA	MP	SRP
commencement				0	0
additions:					
secocnd hand furniture			12,000		
two new computers		5,000			
New Van		10,500			
Office electrics (note 1)			10,000		
total	0	15,500	22,000		
@130% =		20,150			
@100% =			22,000		
total CAs= 44,150					

NO TWDV

Note 1:
 15/1/2023 therefore as it is deemed to be complete from this
 poitn abnother paymenrts arising within 4 months are allowable i.
 e. before 15/5/2023. 5000 + 5000 = 10,000

the remaining 10,000 will be added int he AP when paid i.e. 31
 May 2024 ap.

1/2/23 - 31/5/23 = 4 months

		fya	aia	MP	SRP

twdv as at 1/2/23					0	0
additions:						
new computer			3,000			
new office furniture			2,000			
van			8,000			
disposals:						
van			(2,400)			
total			10,600			
as the period overlaps the 31 march 23 FYA 130% super deduction			10600 @ 125% = 13250			
the 130% is reduced to 100 + (30- (30x2/12)) = 125%						
total allowances			13,250			

NO TWDV

FYA has no 1 million restriction like AIA.

The corporation tax due is as follows:

For the accounting period of 1/2/22 - 31/1/23 (12 months)

			£
60,000 x 12/16 =	taxable profit prorated		45,000
Less capital allowances above			(44,150)
total taxable profits =			850
@19% =			£162

For the accounting period of 1/2/23 - 31/5/23 (4 months)

			£
taxable profit prorated	60,000 x 4/16 =		15,000
Less capital allowances above			(13,250)
total taxable profits			1,750
@19%			£333

though the corporation tax rates have increased, it will not apply here due to the augmented profits of £500 + £1,750 (£2,250) being less than £50,000 x 2/12 = £8,333.

However as the company has a connected company this will reduce further to £2,778 due to essentially 3 companies in a group.

Even so there is no increase in tax rates of 19% for this year.

For the accounting period of 1/2/22 - 31/1/23 (12 months)

due date for payment is 1 November 2023. (£161.50)

For the accounting period of 1/2/23 - 31/5/23 (4 months)

due date for payment is 1 March 2024. (£332.50)

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

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

Answer-to-Question-_6_

part 1

taxable benefits:

Vehicles

Any vehicle used for private use on the employee, is deemed to be a benefit in kind.

depending on the type of vehicle there are different rates for benefits in kind.

if it is classed as a car it will use the car benefit rules based on co2 emmisions.

if is it classed as a van it is a flat rate £3,600 per annum, unless it is an electric van where the emissions are o, this will be a tax free benefit in that case.

the fuel benefit will be £688 per annum.

each benefit will be prorated to when the employee used it for private use in the year.

the two engineers with the vans of two front seats and rear for tools will have a van benefit in kind as fdiscussed above.

the dropping son to school member, if this is incidental and on the way, this will still be classed as private use as it is on his driveway at the end of each day and it is not a pool car. Though the fuel will not be for private use, hence no fuel benefit here.

the one using it on weekened will be deemed a private private use so will have a fuel benefit accoridngly as he is using it ont he weekend.

the fuel cards will not reduce the fuel benefit to the second member above due to the fuel unable to be reduced by private use.

the supervisor vehicle may be classed under car benefit rules as there are seats in the back, on the basis it passes for van benefit, (HMRC advance clearance can be sought here), there is a van benefit but no fuel benefit as he takes it home each night.

The old sports car will have its own benefit in kind as it is 18 years old, it will be based on a flat rate for older cars using the list price currently if transferred the asset to Rashid, if not it will be classed as a benefit under the old list price.

Loan

As the loan is interest free, greater than £10,000 and not for a qualifying business purpose, a taxable benefit will arise.

This is worked out automatically on an averaging basis over the tax year, but the strict basis rules can be used should this give a more beneficial/realistic view of the benefit.

As the loan was given on the 1st of December 2023, the benefit for 2023/24 will be as follows (using the ORI of 2%)

$$20,000 \times 2\% \times 4/12 = \pounds 133$$

this will be charged to income tax on the sales manager and class 1a NIC on the company. The class 1A NIC is a deductible expense for the company against CTax.

When he repays the loan the benefit will reduce accordingly.

Mileage payments

HMRC official business mileage rates are 45p up to 10,000 miles and 25p on the excess over this in a tax year.

Therefore, if the sales manager is doing 25,000 business miles annually and is getting paid 45p for all. this is deemed to be an

extra benefit.

However as it is paid in cash, it will be charged as earnings and Class 1 NIC will be payable instead of Class 1A.

Total repaid = $25,000 \times 45p = 11,250$

total business mileage payments allowed:

$10,000 \times 45p = 4,500$

$15,000 \times 25p = 3,750$

total = $8,250$

the excess $11250 - 8250 = £3000$ will be chargeable to income tax and Class 1 NICs.

CTax treatment of the van methods;

in general this will effect the capital allowances available on the vans.

if the company owns the van after the payments it is a capital assets for CTax purposes, if not it is a revenue expense and any finance lease depreciation is allowed as a deduction against CTax.

hire purchased assets are allowed to be put through the capital allowances in full once brought into use in the business. any interest payable is an allowable deduction against rental profits.

if it is an outright purchase it will enter the capital allowances deductions when the obligation to pay is unconditional or within 4 months of delivery if any payment is between that time.

method 1 -

a contract hire agreement

as it is returned to the dealer they do not own it hence it will be a revenue expense in full on the date the contract payments are made, in line with the accounting periods.

if the contract changes to say they can keep at the end this will then be moved under the same principles as method 2 below.

method 2 -

a hire purchase agreement over 4 years
as it will be brought into the company in January 2024, and it is
hire purchase, the total cost of the 4 years will plus deposit
will be in the 31 December 2024 year end accounts.

the deposit will be disallowed as the van would not be brought
into use until delivered in January 2024 after the AP year end.

method 3 -

deferred payment scheme
this will allow only half the cost of the van to be in the
December 2023 accounts, and the remaining half disallowed to be
entered into the 31 December 2024 accounts.

part 2

They will report the new employees using the new starter forms.

the new starter forms indicate whether it is currently their only
job, they have another job. or if they have had another job
since the start of the relevant tax year.

As well as request their passports, dates of birth and other
relevant details like national insurance number.

The company will then use these to submit FPS fully payment
summaries and EPS
along with monthly RTI for payroll to let HMRC know the salary,
NIC and tax deducted linked to each employee.

P60s will also be issued showing the full pay and tax deducted
for each employee (ready by 31 May following the end of the tax
year.)

The benefits will be reported to HMRC by way of a P11D return.

The P11D return will show all the categories of benefit and the

amount related to them, the P11D b will summarise the total and the class 1 A nic due.

The return is due to be submitted to hmrc by 6 July following the end of the tax year.

The payment of class 1 A Nic is due by 19th of July if posted and 22nd July following the end of the tax year if paid electronically.