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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**582**	**2593**	**3040**
Section 2	**595**	**2477**	**3017**
Section 3	**822**	**3752**	**4544**
Section 4	**385**	**1921**	**2252**
Section 5	**597**	**2586**	**3061**
Section 6	**435**	**2035**	**2393**
Total	**3416**	**15364**	**18307**

Answer-to-Question-_1_

15 month period - long period of account therefore the trading profits are calculated and apportioned and 2 separate capital allowance comps are required. NTLR are on an accruals basis and gains arise in the period of sale

trading profits 15 months ended 31 march 2026

Net profit	notes	405400	
add back depreciation	2	86600	
QCds	3	6000	
interst	4	(8800)	
profit on disposal	5	(7200)	
trading profits		482000	APPORTION 12/15 AND 3/15

1) interest on HP agreements is allowable and relates to the trade, so does the financing of short term working capital - accruals basis so no adjustment here

2) depreciation is not allowable as it relates to capital

3) add back charitable donations as not a trading expense (8*750)

4)interest income is a NTLR income so deduct from trading income

5)profit on sale not included as income for tax as relates to capital / capital gain instead

CAs for the year ended dec 2025

		GENERAL	SPECIAL	AIA		allowances
TWDV		16600	0			
ADDITION-TRACTOR				76000		
DOUBLE CAB PICKUP			52000			
PORTABLE ON SITE CABIN				62400		
18% WDA		(2988)				2988
6% WDA			(3120)			3120
AIA				(138400)		138400
TWDV C/F		13612	48880			144508

6) AIA can be claimed on the tractor and the on site cabin. Fya expensing is also available as new moveable P&M but to avoid balancing charges on disposal claim AIA

7) the double cab pickup is a car for CAs and is allocated to the speical rate pool as emissions > 50g/km - no AIA or FYa

CAs for the PERIOD ENDED MARCH 2026

	GENERAL	**SPECIAL**	**aia**		**ALLOWANCES**
TWDV	13612	48880			
SECOND HAND COMBINE HARVESTER - note 8	**6500**		**250000**		
disposal - note 9	**(5000)**				

	15112	**48880**	**250k**		
wda 18%*3/12	**(680)**				**680**
wda6%*3 /12		**(733)**			**733**
aia			**(250k)**		**250k**
					251413

8) AIA is reduced to £1mil * 3/12 = 250k. Therefore, claim 250k AIA and the remaining value goes to general pool

9) deduct cost (as proceeds exceed) from general pool. the gain is 2200 to include in CT comp, but it is restricted to 5/3 * (7200-6000) = 2000

CT COMP YEAR ENDED 31 DEC 2025

TRADING PROFITS	12/15*482000		385,600
LESS CAS	AS ABOVE		(144508)
NTLR	BOND INTEREST	1 MONTH	2,200
			241092
LESS:	QCDS	5*750	(3750)
TTP			237342

CT COMP PERIOD ENDED 31 MaRCH 2026

TRADING PROFITS	3/15*482000		96400

LESS CAS	AS ABOVE		(251413)
trading loss			(155013)
NTLR	BOND INTERSET	3 *2200	6600
chargeable gains	restricted as point 8 above		2000
			(146413)
LESS:	QCDS - these are wasted	3*750	(2250)
wa			

Trading loss is offset against the NTLR and gains arising in period ended 31 march 2026. This must first be offset in the current year before carrying the trading loss back to the year ended 31 dec 2025.

A claim can then be made to carry the trading loss back to the year ended 31 dec 2025 against total profits before QCDS

ye 31 dec 2025 total profits		241092	
loss carried back		(146413)	
QCDS		(3750)	
ttp		90929	
ct @ 25%		22732	
les marginal relief	3/200*250k-90929	(2386)	
CT liability		20345	

The tax for the year ended 31 dec 2025 is due 1 october 2026 and no tax is due for the period ended 31 march 2026 but it would be due on 1 jan 2027 if there was

A tax return is due for both the year ended 31 December 2025, and the period ended 31 march 2026. They are both due 12 months after the period end, therefore the due date for

both returns is 31 march 2027

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

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

Answer-to-Question-_2_

OPTION 1 - ON ISSUE

Under an EMI scheme, there is only a charge to income tax if exercised within 10 years if the options are granted at a discount.

There is also a charge to income tax if exercised after 10 years from grant.

There is never a charge to income tax on the grant of options.

The options are granted when the MV is £150. The option price is £70 a share and therefore they are at a discount.

The charge when Tom exercises (i,.e. in 2029 when Louise plans to sell the shares) will be as follows:

The lower of -
MV at exercise £350
And MV at grant £150

less - option price £70

Total charge to IT = (150-70) *100 = £8,000

This amount will also be liable to class 1 NICs for Jet Away and Tom as there will be selling arrangements in place when he exercises the shares. The income tax and NICs must be reported via PAYE.

Class 1 primarys at 2% assuming he has a high level of income, and secondarys at 15%.

The company can get a CT deduction on exercise for the cost of the Class 1 secondary NICs (@15%) and the amount charged to income tax of £8000.

Option 2 - ON ISSUE

The issue of shares to an employee is charged to income tax as it is a part of remuneration for the employee from their employer.

If the shares are readily convertible assets, the charge to income tax is also charged to class 1 NICs for the employee and employer and PAYE must be applied.

However, the shares are in an unlisted company and there are no disposal arrangements in place as yet so the shares are not classed as readily convertible.

The amount charged to income tax is the difference between the MV of the shares at issue and the price paid by the employee for the shares.

Therefore, the amount charged to IT is (150*100)-(100*1) = £14,900

Tom will need to report the income on his tax return, or on the online service if he is not in self assessment.

The company can get a corresponding deduction of the amount charged on Tom of £14,900

OPTION 1 -ON SALE

The sale of the shares i.e. when louise decides to sell the company, will be a disposal for Tom of his 100 shares he acquired via the share scheme.

As under option 1, the sahres are acquired via an EMI scheme, and assumiing the shares are sold in 2029, it will be over 2 years since the grant of the options.

BADR will be available on the disposal for Tom (assuming) he will still be employed by the company, it is an unlisted trading company, and it will be over 2 years since the grant of the options.

It does not matter that he does not hold more than 5% i.e it is not his personal company.

therefore, the gain will be calculated as

proceeds	350*100	35000	
less	cost	(7k)	
less	charged to IT	(8k)	
		20k	
	*		

charged at 18%		3600	

*ignoring aea of £3k

Option 2 - ON SALE

BADR will not be available for Tom under option 2 as the company is not his personal company as he will hold less than 5% of the shares.

therefore, the gain on disposal will be charged to his marginal rate of CGT which we have assumed is the higher rate

proceeds	350*100	35k	
cost		(100)	
cahrged to IT		(14900)	
gain		20k	
	*		
24%		4800	

*Ignoring AEA. Same gain as above

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

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

Answer-to-Question-_3_

1) **GIFTS TO OAKLEY**

The gift of both the shares and the warehouse are disposals for CGT made by Marianne.

Oakley is a connected person for CGT and therefore both disposals take place at market value for proceeds. marianne's base cost and any costs of acquisition or disposal can be deducted to calculate the gains on each.

The gift of shares are in an unquoted company and therefore the disposal qualifies for gift relief under TCGA s165.

The gift of the warehouse is an asset used in Marianne's personal company i.e. she owns more than 5% of the shareholding both before and after the gift of the shares to Oakley. Therefore, the gift of the warehouse also qualifies for gift relief

However, the gift relief in respect of the warehouse will be restricted by 25% for the non-business use of the asset.

The deemed proceeds i..e market value of the warehouse (25% of 500k) which is not related to the business is immediately charged to CGT for Marianne.

A claim for gift relief results in the gains arising on marianne to be rolled over against Oakley's base cost to reduce his base cost (effectively deferring the gain until he sells the assets).

A gift relief claim must be made within 4 years from the end of the tax year of the gift and must be made jointly by both Oakley and marianne i.e. oakley must agree.

BADR would be available on each disposal if oakley did not agree as marianne's personal trading company / associated disposal (but again restricted for non-businesss use of the warehouse) - see below on BADR points

INCOME TAX

Marianne will no longer have the rental income from the warehouse used in Carolwood so her income tax liability will be reduced each year going forward.

Her son Oakley will now have this additional rental income which he will need to report on a self-assessment tax return due each 31 january and pay income tax at his marginal rate (20%/40%/45%).

COMPANY PURCHASE OF OWN SHARES

On a company purchase of own shares - the proceeds received by the individual are charged to income tax unless the following conditions are met:

The company is an unquoted trading company - yes Carol wood is.

The purchase is for the benefit of the trade - yes it is here are Marianne is retiring from the business.

The repurchase does not form an arrangement to avoid tax - unlikely here

The seller is UK resident - marianne is

The seller must have owned them for at least 5 years - Marianne has met this

The seller must have a substantial reduction in their interest in the company following the sale - i.e. at least 25%. Marianne is selling the remainder of her shares i.e. 100% so she meets this

As mentioned at each point above, it is likley that marianne will meet the capital requirements and therefore the distribution she receives from Carolwood will be treated as capital.

Her base cost can be deducted from the proceeds received and she will be able to claim BADR which is beenficial to marianne over the dividends treatment (llower rate of 18% compared to additional rate of dividemds of 39.35%).

She can claim BADR as she will have owned the sahres more than 2 years and it is her personal trading company (>5% shareholding and worked for the comapny - selling within 3 years of retirements - ceasing to trade)

However, Level of cash in the accounts may need assessed for BADR / trading company requirements as above to ensure these requirements are met as the holistic approach taken by HMRC to view whether a company is trading is the 20:20:20 approach. The high cash reserves in comparison to the total assets could raise a red flag to HMRC.

GIFT TO AURELIA

The gift to Aurelia is in an investment comapny. Again, aurelia is conneced for CGT so the proceeds are MV. the base cost is deducted to arrive at marianne's gain.

Gift relief is still available in a non-trading company so long as the company is marianne's personal company i.e. she holds more than 5%.

Marianne does hold more than 5% so gift relief can be claimed by both marianne and aurelia as above by oakley and marianne within 4 years from the date of the gift.

2) The high level of cash in the accounts can restrict the availability of BPR in Oakley's estate.

An asset must be used wholly or mainly for the purpose of the trading business to be eligible for BPR.

The shares are in an unquoted company so typically BPR is available at 100%.

However, cash is an excepted asset for BPR and therefore, the shaares would qualify for

the value of the cash shall be left out of the account i.e. no BPR will be applied to the £650k of excepted assets 'cash' and would be charged to iht

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

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

Answer-to-Question-_4_

The qualifying expenditure for R&D the company is as follows:

STAFF COSTS -

include salary, pension conts, ER NICs - EE NICs and PAYE are not included

We must apportion the above to the amount of time spent by each individual on R&D. No time is spent by Miles on R&D

All the rest spend 85%

Elias	85%* 19105	16239	
Roy	85%* 19105	16239	
Agnes	85%* 31320	26622	
James	85%*24840	21114	
total staff		80214	

SUBCONTRACTOR

Ravenscroft
Only expenditure in th UK is eligible for relief.

As Ravescroft is unconnected, 65% of the eligible costs are qualifying expenditure

75% *371524 = 278643 in the UK

65% QE * 278643 = 181118

thornbridge

again 65% of the cost is qualifying expenditure as subcontractor is unconnnected = 36871

IT COSTS
Only the non-general costs i.e. directly attributed to the R&D work are qaulifying costs

the general IT costs are not eligible but the other 2 are

property

the general expenses are again not allowable and as there is no further information provided on the utilities etc, it is assumed there are not directly related to the R&D so are not qualifying expenditure

TOTAL R&D QUALIFYING EXPENDITURE

STAFFING		80214	
CONTRACTED OUT	RAVENSCROFT	181118	
	THRONBRIDGE	36871	
software		16962	
total qualifying expenditure		315165	

The credit...

As stated the company qualifies for enhanceed R&d credit - > 30% R&D expenditure, loss making and SME. Therefore, relief for 186% of the qulaifying expenditure is an available tax deduction.

The 100% of the above QE is already deducted in the accounts so a further 86% needs deducted to get to the trading loss:

Net loss		(525,358)	

86% qualifying expenditure		(271042)	
		(796,400)	

The surrenderable loss is the lower of:

186% of the qualifying expenditure = £586,207 (315165*186%), and

The unrelieved trading loss i.e. £796,400

Therefore, the surrenderable loss is £586,207.

A payment can be made to the company of 14.5% of the surrenderable loss.

However, the tax relief claim payment is restricted to the PAYE cap (which will apply as company is not creating IP).

Lower of:

14.5% of the surrenderable loss = 14.5% * 586,207 = £85,000

PAYE cap = (3*(535+535+2486+3286+2086)) + 20k = £46,784

The total tax relief claim that can be made is therfore £46,784.

The unrelieved trading loss which can be carried forward = surrenderable loss 586,207 - 46784 = £539,933

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

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

Answer-to-Question-_5_

cash basis - payments made and income received.

	notes		££
profit per accounts			15430
cost of sales	12		51200
Unsolicited gift	2		(200)
Pension payments	3		4280
premises costs	4		6000
	4		
van	5		(1550)
car	5		(546)
accountancy	7		380
training course - Dee	8		200
client gifts	8		840
gift aid	8		160
re-turf garden	10		210
proprietor's cash drawings	1		55,000
rent received	4		(6000)
bank interest	11		(1100)
total taxable profits 25/26			124,304

1) proprietor's cash drawings is not a tax allowable expense - it is just Dee's drawing cash from the business so add back

2) the gift was not expected for dee for feeding the cats and therefore is not taxable

3) only include pensions actually paid i.e. add back the contribution in 14 april after year end and add back Dee's personal payments as she is proprietor /personal

Total add back = 4280

4) rents received of £6000 from the jacuzzi business is deducted from trade profits as this is taxed on dee personally.

Half of the premises costs 12000 /2 = £6000 need added back and can be deducted in Dee's personal return as these relate to her private rental not the business

5) van - flat rate.

10k*45p = 4500
3400*25p = 850

5350 total - additional £1550 to deduct

Car - capital allowances and running costs are allowed

CAs = 14k*0.06*0.65 = £546 further to deduct from comp

6) the business debt collection is allowable expense of the business. The barrister costs for the prosecution are allowable as defence was successful

7)add back the £380 acc fees that relates to personal matters

8) the equipment costs are allowable in full as this is the cash basis in use and these are moveable P&M

9) general overheads -

Forklift course - allowable for the employee but not for Dee as this is treated as capital as new skill so add back £200 for Dee

The medical costs are allowable as they are in relation to a work related injury, even though for Dee

Client gifts - these are disallowable as they are food so add back £840

Gift aid - add back and deduct within dee's personal tax comp

the remaining costs are allowable

10) under the cash basis, the cost of materials taken by the sole trader are added back in the period they are taken from the business so add back £210

There is no cost to the business of providing the service of advice to Dee's aunt so no adjustment is required.

11) bank interest is added to dee's personal tax comp so deduct here

12) Cost of sales is an accuals basis expense and not allowable under the cash basis - so add back

PART 2

	notes	NSI	SI	
Self-employment	1	124,304		
Interest	2		1,100	
Rental	3	-		
total		124304	1100	
less: pension conts	4	(5125)		
less: gift aid	5	(225)		
		118,954	1,100	
personal allowance	6	(3093)		

		115861		
TAX DUE				
20% on 43050	7	8610		
40% ON (115861-43050)		29124		
savings 500@0%		0		
600@40%		240		
total tax		37974		

Class 4 NICs =

6% on profits between 12570 and 50270 = 2262

2% on profits above 50270 = 74034*0.02 = 1481

Total class 4s = 3743

1) as above

2) as above

3) 6000 - 6000 = nil

4) pension - gross up = 4100*100/80 = 5125

5) gift aid - gross up = 160*100/8= 225

6) PA is restricted :

12570 - (18,954/2=9477) = 3093

7) BRB and HRBs are extended by gross pension and gift aid conts

BRB is extended to 37700+5125+225 = 43050

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

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

Answer-to-Question-_6_

Amounts that summer is entitled to i.e. in her contract or that are reasonably expected on termination are taxed as normal earnings for income tax and are liable to Class 1 NICs for both Summer and the company / via PAYE.

I.e. her bonus is taxed as normal earnings as it was in her contract. 3 months pay was reasonably expected under the terms of her contract and therefore, it must be charged to tax as normal earnings i.e. income tax and Class 1s via PAYE.

Pension scheme contributions in a termination package are exempt from income tax and NICs.

Outplacement counselling is usually an exempt part of the termination package, however, as it is not generally available to other employees, under the legislation, it will not be exempt for Summer and will form part of her ex-gratia payment.

Ex -gratia payments and payments not reaonably expected, and statutory redundancy payments are all taxed under s401, where there is a £30k exemption. Amounts exceeding this exemption are charged to Class 1As and charged to income tax via PAYE.

The **write off of her employment related loan** is usually charged to class 1 NICs and taxed as employment income as normal. HOwever, as this forms part of her termination package, it will be taxed under s401.

Taxed as normal earnings:

Bonus		3500	
PILON	expected as contract included a 3 month notice period	33k	
total		36,500	
20%	(3142)*20%	628	

40%	(10428-3142)*40%	2914	
45%	(36500-10428)*45%	10428	
tax as normal		13971	

Summer was issued her P45 before the package and therefore will be on a 0T tax code for the calculation of tax on her termination package.

BR limit = 37700/12 = 3142
HR limit =125140/12 = 10428

Class 1 primary for summer on amoutns taxed as normal

8%	4189-1048	251	
2%	36500-4189	646	
total for normal		897	

Class 1 secondary for the company:

36500@15% = £5475

Taxed under s401:

Statutory redundancy		6000	
outplacement counselling	see note above	1000	
ex gratia	note 1 below	16000	
Loan write off	see note above	7500	
total		30500	
Exemption	as mentioned above	(30k)	
Charged to IT and Class 1As		500	
IT @ 45%		225	
class 1As for the company	@15%	75	

1) £33k of the ex gratia payment has already been taxed as normal earnings as a PILON

The remaining £16k (49k-33k) is taxed under s401

Total tax and NICs for Summer on termination package=

IT on normal earnings		13971	
Class 1s on Normal		897	
IT on s401		225	
total		15093	

total NICs for the company on termination package =

Class 1 on normal earnings		5475	
class 1As on s401		75	
total		5550	