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Chartered
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Excellence in Taxation

am Date of Examination

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Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

Taxation of Owner-Managed Businesses

Taxation of Individuals

Domestic Indirect Taxation

Cross-Border Indirect Taxation

Inheritance Tax, Trusts & Estates

Taxation of Major Corporates

Human Capital Taxes

Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

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	<u>FYA</u>	<u>MP</u>	<u>SRP</u>	<u>SLA</u>	<u>Total</u>
TW DV BIF		108000	92000		
Additions					
New production mach (w2)		12000			
Stelle laboratory (w4)	120,000				
Solar panels (w5)			29000		
Air con (w5)			26000		
Lighting (w6)			8000		
IT equipment (w7)				16000	
2 new computers (w8)	3000			4000	
Shelving		44000			
Vans (w9)		13500			
Electrica (w10)		69000			
	<u>123000</u>				123000
	123000				
		246500	155000	20000	
<u>Disposals</u>					
Old machinery (w11)		(14000)			
Storage container (w13)		(5500)			
		227000	155000	20,000	
WDA @ 18% x 9/12 (w14)	(30645)			(2700)	33,345
WDA @ 8% x 9/12 (w14)		(9300)			9300
	196355	145700	17300		
Total capital allowances				165,645	

The Far Sight Partnership LLP is a mixed partnership and is therefore not entitled to the Annual Investment Allowance of £200,000 at 100%.

W1 - relocation costs

The costs associated with bringing P+M into use is eligible for capital allowances, i.e. if things need to be adjusted in new premises. If it is purely just relocation costs then this is not a cost eligible for capital allowances. I have assumed the latter.

W2 - production machinery

Capital allowances are allowed when expenditure is incurred. Generally, expenditure is incurred when there is an unconditional obligation which is usually on the date it is delivered. If payment is made after 4 months from this date then that is only eligible for capital allowances when paid. Therefore, eligible for capital allowances in period to March 2019 is October 18 + 4m = Feb 19.
January 2019 : $48000 \times 25\% = £12000$

W3 - Change in accounting date

The partnership is changing its accounting date. The year of the change is the earlier of the date not prepared to old date i.e 30 June 19 (19/20) and the date prepared to new date i.e 31 March 19 (18/19). Therefore the year of the change is 2018/19.

2017/18 - y/e June 17

2018/19 - 1 July 17 - 31 March 19

we overlap profits to reduce to 12 months.

2019/20 - y/e 31 March 20

W4 - Stelle laboratory

Capital expenditure on qualifying R+D qualifies for 100% FYA even although it is on a building

W5 - Sda panels / arcon

Integral feature so qualifies for reduced WDA in special rate pool.

W6 - lighting

Lighting is an integral feature so is allocated to the SRP. ~~Energy~~ Energy saving lighting is not a qualifying asset for FYA at 100% unless it was incurred on the laboratory but I have assumed it relates to the freehold.

W7 - IT equipment

A short life asset (SLA) election should be made since they are expected to have a useful life of less than 8 years. This has the effect of accelerating capital allowances and when they are replaced in 4 years time the total allowance will be cost less any proceeds received. This will result in a balancing allowance if sold below net TWIDV.

W8 - new computers

The computer dedicated to use in R+D will qualify for FYA at 100%. The other are will go into the ^{SLA} ~~asset~~ pool, ~~and will get ~~to be~~~~. I have assumed that the computer and other I/F equipment can be accumulated together as are deemed to be several of the same assets pooled together. If this isn't the case a separate SLA pool should be made.

W9 - vans

When an asset is acquired under HP they are eligible for capital allowances when they are brought into use in the trade.

As it is not brought into use until April 19 it will not get capital allowances until ~~the~~ the following year. The other 3 will get capital allowances this year

$$\frac{18000}{4} \times 3 = 13,500$$

W10 - electric car

Ordinarily, an electric car would qualify for FYA at 100%. However since the car is second hand it doesn't qualify so should be allocated to the main pool.

W11 - old machinery

I have assumed the machinery is no longer used in trade.

W12 - Van to employee

The proceeds ~~should be entered into the~~ don't need to be put in the comp because it will be taxed as a taxable benefit in the hands of the employee so the partnership can continue to claim WDAS

W13 - storage container

The proceeds in the capital allowance comp is always the lower of cost and actual proceeds received

W14 - WDA

Written down allowance is restricted by 9/12 since accounting period is only 9m long

2) In order to claim capital allowances on the fixtures within the new freehold both the pooling requirement and fixed value requirement need to be satisfied.

The fixed value requirement is satisfied if within 2 years of acquisition the seller and the buyer make a joint election to agree on the value to be attributed to the fixtures. This will be the ~~the~~ cost for the buyer in which capital allowances can be claimed and the proceeds for the seller. If this cannot be agreed it can be referred to the FTT for determination.

The pooling requirement is met if the seller has previously claimed capital allowances on the fixtures or he has at least allocated them to a pool.

As the seller has advised he has not previously claimed capital allowances the pooling requirement is not currently met but he can do this now. This doesn't seem to be an issue as they have said they will cooperate fully.

If any integral features which are now eligible for CAs were ~~as~~ there when seller purchased in April 08 they can make an election to claim CAs on these as first purchase post April 08

Mr Ethan Smith

Tax Adviser

Address

Address

Date

Dear Ethan

Loans Issued by Sofnes Ltd

You have asked us to advise on the tax implications of the loans made by the company and also of options to settle the loan to you. I have outlined the main points below.

General

Sofnes Ltd is a close company since it is owned by five or fewer shareholders. There are rules governing close companies and their shareholders due to the high level of control that they have. One of these special rules is s455 tax payable on overdrawn balances.

Ethan

~~The loan of £60,000 to you on 20 Jan~~

As you are a shareholder director the loan to you from the company will be liable to S455 tax if not repaid before 1 April 2019.

£60,000 was repaid on 31 March 2019 but within a period of 30 days another payment was advanced. As both the repayment and the advance is ~~more~~ £5000 or more then the £60,000 repaid is treated as repaying the £20,000 advanced on 20 April 2019. Therefore, only £40,000 is repaying the original loan.

Therefore, S455 tax payable to HMRC on 1 April 2019 is £6581 ($60,250 - 40,000 \times 32.5\%$).

The interest accrued of £250 has not been paid so this is included in the balance ~~due to~~ outstanding at 30 June 18.

~~As~~
~~As~~ ~~the~~ ~~interest~~ ~~is~~ ~~not~~ ~~paid~~

rate of interest there is no taxable benefit
or you. If it wasn't then the difference
between what

above the official rate of interest there
is a taxable benefit.

As long as the interest is paid within 9m
of the year end there will not be a taxable
benefit or you. However, if not a taxable
benefit will arise which you will be subject
to income tax and the company will pay
Class 1A.

$$60,000 \times 2.5\% \times \frac{1}{12} = £125$$

$$\text{Class 1A @ } 13.8\% = £17.$$

This Class 1A would be deductible for
corp tax purposes.

Damier

STSS tax does not apply to Damier's loan as he is not a shareholder. His loan is a taxable benefit as it exceeds £10,000.
~~STSS tax does not apply to Damier's loan~~

Damier had a salary sacrifice arrangement for the interest. Under this rule the higher of the benefit and the salary sacrificed is taxed on Damier.

$$\begin{aligned}\text{Benefit} &= \frac{15000 + 15000 \times 2.5\% \times \frac{3}{12}}{2} \\ &= £94\end{aligned}$$

As £500 is higher than £94 Damier will be charged to income tax at his marginal rate on £500. The company will have to pay Class 1A on the £500 too and report on form P11D.

Loan from Jeff

As this is a loan between an individual and a company, the company will need to withhold basic rate tax from the interest payments.

Therefore the company should pay HMRC 20% and Jeff 80%.

The company should also fill in a return 14 days after each calendar quarter.

Settle loan

There are several options available to settle emans loan since ~~there~~ you can't repay it.

Bonus

The company could issue you a bonus.

However only the net amount would be ~~be~~ available to repay the loan.

i.e after Class 1 and income tax.

Depending on other income this could be quite high rates of tax. The company will also need to pay Class 1 NIC on the bonus at 13.8% and it will be accounted for under PAYE.

~~Dividend~~

The company could

The bonus would be deductible for corp tax along with Class 1 NIC.

Dividend

The company could issue a dividend ~~if it has sufficient~~ if it has sufficient distributable reserves. This would be taxed at 0% to the extent it fell in your £2000 dividend allowance, 7.5% to the extent it fell in your basic rate band, 32.5% to the extent it fell in your ~~the~~ higher rate band and 38.1% the rest.

This would not be deductible for the company but no NIC payable.

However, Jeff may also need to be paid a dividend. It is possible to waive his rights but this can be complicated.

Written off

If the loan ~~was~~ to you was written off

It would be taxed on you as a dividend, and would not be deductible for the company.

However, it would be treated as earnings for NIC so Class 1 would be payable by both you and the company, which would be deductible for company.

I recommend a dividend to avoid NIC costs

I trust this is useful. Please let me know if you have queries.

Yours sincerely

Tax Advice

Notes on tax treatment of expenses

I have made notes on each of the expenses included in your notes whilst preparing the tax return.

Property repairs

Capital expenses should be disallowed when computing trading profits and they may be eligible for capital allowances.

An extension would be capital as it has enhanced the building. It will form part of the base cost for CGT.

The wall costs will be revenue if £3500 represents less than 50% of replacing the whole asset. If not it will be capital.

When determining whether repairs are capital or revenue it is important to look at whether there is any element of improvement. Improvement is capital, like for like is likely to be revenue.

The costs incurred in creating a meeting space is capital as there is an enduring benefit of the meeting room and so costs should be disallowed when calculating trade profit.

Services for own use

The rule for goods for own use is different to services for own use. If goods are taken then the market value of the goods should be added to turnover ~~and~~ and it will form part of the taxable profits. However, there is no such rule for ~~the~~ services. Therefore, no adjustment needs made for the services provided the £100 is included in turnover.

Training

The monthly technical updates cost of £1600 is allowable as it relates to all staff keeping up to date.

The £4000 for an introductory qualification in digital marketing varies and will need split between Ollie and the employer.

The element relating to Ollie is a capital cost as he is learning a new skill which is an enduring benefit of the trade.

The element relating to the employee will depend on if it qualifies as work related or not.

If ^{totally} work related it will be a deductible cost, as it is wholly and exclusively for the trade.

If not ~~work related~~ ^{totally} work related and there is a dual purpose then it may give rise to a taxable

benefit on the employee who will pay income tax and the ~~the~~ Ollie will be liable to Class 1A at 13.8%.

If the personal element and work element cannot be separated ~~these~~ and the personal element is not insignificant then the full cost is disallowed.

Gift to employee

If the voucher can only be used ~~to~~ to purchase a gift then it is a trivial benefit or is £50 or less and not rewarded for services.

A voucher is subject to Class 1 NIC at 13.8% and will need reported on form P11D. ~~and~~

The company ~~is~~ could choose to enter into a PSA to settle the income tax on this gift. The gift would need grossed up at the employee's marginal tax rate to take account of tax due. This

~~will need~~ will need
submitted by 6 July.

Any questions let me know

Thanks

Tax Manager

SMEs get generous relief if incur expenditure on qualifying R+D revenue expenditure.

They get a deduction of 230% in calculating profits.

An SME is a company with less than 500 employees, turnover of less than or equal to €100m and assets less than or equal to €80m.

To qualify for relief the research and development must be related to a trade carried on by the company.

It must be incurred on staffing costs, software or consumable items, externally provided services, it must not be subsidised and it is not incurred by the company in carrying on activities which are contracted out to the company by any person.

Solid wall insulation

As this project is to develop a new product to insulate walls and which is related to the trade then this is likely to qualify for enhanced relief. It is not an extension to a ~~pre-existing~~ product already offered.

Plant-based foam

This project is not likely to qualify for enhanced relief because it is contracted to it by another SME. The SME who is contracting it out is likely to qualify and claim the enhanced deductions.

2)

Staff costs (W2) 153,350

Private medical costs (W3) 1400

Consumables (W1) 125945

Consultancy (W4) 13000

Consumables (W5) 3000

296,695

$$296,695 \times 130\% = £385,704$$

$$\text{So loss} = 211,617 + 385,704$$

$$= 597,321$$

~~KOS~~

W1 - Consumables

The material costs ~~will~~ for plant based foam will not qualify as the project doesn't qualify since it is subcontracted by another SME. The material costs for the ~~other~~ solid wall is allowable on consumables if directly attributable.

W2 - Staff costs

Qualifying staff costs include costs that are directly attributable to the R+D.

From the info, ~~that the market research~~ ~~that all staff involved are~~ ~~directly attributable~~ provided, Marie Gilfillan costs will not qualify for enhanced deduction as she is involved in market research.

Therefore allowable staff costs is:

$$191400 - 38050 = 153,350$$

W3 - private medical

Qualify as benefits for directly attributable staff

W4 - subcontracted

Subcontracted expenditure with a connected party ~~is~~ enhanced exp is limited to the cost incurred by the connected company. We would need to know how much was incurred.

External workers qualifying expenditure is 65% of total cost
 $= 20,000 \times 65\% = 13,000$

W5 - heat light

Heat light and power is specifically allowable. Therefore amount relating to solid wall insulation qualifies as directly attributable

$$10,000 \times 30\% = 3,000$$

3) R+D tax credit is available for SMEs that incur a loss and have incurred qualifying R+D revenue expenditure.

The surrenderable loss is the lower of the unrelieved loss and 230% of the qualifying R+D expenditure
 Loss - 597,321

$$230\% \times \text{qual R+D} = 296695 + 296691$$

The amount ~~is~~ is then multiplied by 14.5% and this will generate a repayment. The losses carried forward will be reduced by the surrenderable amount.

This gives a cash flow advantage but if carried forward would save tax at 19%. So need to weigh up whether better to have cash now or save more later. As losses are expected in next few years and cash flow is important better to take repayment

Ms Angela Dudley

Tax Adviser

Address

Address

Date

Dear Angela

Disposal of business

You have asked for advice relating to the best way to dispose of your business.

I have outlined the consequences of both options below.

Trading assets

If you sell ~~the~~ the trading assets of the company, the company will have a chargeable gain on the sale of £10,000.

The capital losses of £5000 can be utilised to reduce this to £5000.

Corporation tax at 19% will be payable

The stock will be sold at £180,000 which will create trading income of £120,000 which will be taxable at 19% in the company.

The TWDV for the special rate and main pool capital allowances is £11 so there will be a balancing charge of £1000 on the disposal of the fixtures and fittings and the office equipment as they will be sold for their market value.

~~The loss~~ AS the value of the debtors is only £3000 in comparison to a balance sheet value of £1000 this will reduce profits by £1000 as a provision will be in the accounts or a write off which will be in accordance with FRS 102 i.e. at the year end there is an obligation ~~as~~ as a result of a past event and it is probable that there will be an economic outflow of benefits and a reliable estimate can be made.

The sale of goodwill will be a capital gain of £1000000 since it relates to goodwill pre April 2002. The company will pay corporation tax at 19%.

The ~~value~~ left in the company will be:

Consideration	600,000
Balancing	

~~After this, the amount left to the company~~

The value left in the company will include ~~cash (7000), trade credit~~ the following:

Consideration	600,000
Cash	7000
Trade credits	(30,000)
Corp tax	(50,000)
Stock income	120,000
Bal charge	(7000)
Gains tax	X
	<hr/>
	X

This amount is available for you to take out of the company

This is generally an income distribution which will be taxed at 0% to the extent it falls in your ~~tax~~ dividend allowance of £2000, 7.5% to the extent it's in your basic rate band, 32.5% to the extent it's in your higher rate band and then 38.1%

However, if you apply for voluntary liquidation which is allowed since the company is solvent any distributions made will be capital after the liquidator has been appointed

As the buyer is flexible the distribution could straddle 2 tax years to make use of 2 annual exemptions of £11,700.

Also, as you have no other income above the basic rate band you can take some profits out before ~~of~~ appointing a liquidator to make use of the dividend allowance and basic rate band and low dividend

tax rates. And then the remainder can be distributed as capital.

However, it should be noted that as you are planning or providing valuation consultancy services to local antique dealers the the Targeted Anti Avoidance Rules may apply.

If the rules apply the whole distribution will be taxed as income.

The rules will apply if within 2 years of ceasing trading you set up a trade that is the same or similar to that of Dudley Limited. As Dudley Ltd is an antiques dealer this could easily be the case.

The TAAR rules will only apply where the main reason, or one of the main reasons for ceasing to trade was for the avoidance of tax.

From the information I have it seems as though TAAR may apply so it may be good to take at least a 2 year break.

Informal liquidation probably won't apply to you since the maximum you can take out as capital is £25,000.

~~ER~~ ER will be available on the capital distribution so will be taxed at 10%

Shares:

If you were to dispose of the shares a gain would arise as follows:

SP	500,000
less cost	(50,000)
	<u>450,000</u>

As you have owned the shares for at least 12 months and in this time you work for the company, own at least ~~five~~ 5% of the shares and the company

is trading the disposal will qualify for entrepreneurs relief (ER).

Therefore the gain will be taxed at 10% rather than 10% and 20%.

Gain	£50,000
AE	<u>(11,700)</u>
	£38,300
CT@ 10%	<u>43,830</u>

As you have not claimed ER before the full lifetime allowance ~~of £10m~~ is of £10m is available so the full gain will get ER

Recommendation

Treating the sale as capital is the best option since it is cheaper than income tax rates.

~~But~~ You will receive £100,000 more from the seller if only the trading assets are purchased but the capital option is not guaranteed if you want to work doing valuation services.

I therefore recommend selling the shares to ensure the capital treatment.

As you are the sole shareholder and director the TAAR rules will also apply if selling shares.

I recommend ~~to~~ selling trade and assets and delaying work for 2 years.

~~Please let me~~

Please let me know if you have
queries.

Yours sincerely

Tax Advise

Mr Martin Goss

Tax Adviser

Address

Address

Date

Dear Martin

CGT consequences of gift of shares

The disposal of the shares to Helen is a disposal to a connected person and therefore the proceeds will be deemed to be ~~the~~ market value resulting in a gain of £ as shown below

SP (MV)	700,000
less cost $\left(200,000 \times \frac{700,000}{700,000 + 800,000} \right)$	(93,333)
Gain	606,667

It is possible to claim gift relief on these shares to defer ~~all or some~~ all or some of the gain.

An asset qualifies for gift relief if it is an asset used for the purposes of a trade.

Carried on by the transferor or a personal company of the transferor. ~~Thus~~ This is your personal company since you own at least 5% of the shares.

The amount that can be deferred is restricted ~~by~~ if consideration is received in excess of the cost. The amount received above the cost is chargeable now. Assuming no consideration is going to be received so far the whole gain is eligible.

The amount that can be deferred is also restricted ~~by the amount of~~ if the company holds ~~a~~ chargeable assets that are not chargeable business assets.

The freehold at Dalton Mill is not a business asset as it is held for investment purposes. Therefore the maximum gain that can be ~~g~~ rolled over is as follows:

Gan

606,667

GR

(337,037)

Chargeable gain

269,630

$$\left(606,667 \times \frac{500,000}{500,000 + 400,000} \right)$$

Chargeable assets include Albion business park £500,000 and The Paiton Mill £400,000

A joint election would need to be made ~~before~~ within 4 years of the end of the period.

Gift relief only applies to ~~trading~~ ~~company~~ shares in trading companies.

The fact that the company holds ~~the~~ investment property and cash may be harmful to its trading status.

HMRC look at the 20% test to determine whether a company is trading. They will look at areas such as turnover, asset base and time spent by employees etc

~~£~~ The rental income ~~of £25000~~ of £25000 does not represent more than 20% of the turnover so this test alone looks like trading.

The asset base is made up of £550,000 of non business assets (Dailta and cash). This represents ~~£~~ 28%. $\left(\frac{550,000}{1,975,000}\right)$ of assets which is more than 20% so this may call into question the trading status.

~~Other factors will need to be considered and the funds are used~~

The bank funds are used for working capital requirements so if this was removed ~~as~~ only 20% $\left(\frac{400,000}{1,975,000}\right)$ would represent non business assets. This is still high but better than 28%.

I recommend documenting ~~that~~ what the bank balance is earmarked for ~~to~~ to make sure that this percentage is 20% rather than 28%.

All the factors will be considered as a whole to determine the trading status.

HMRC have a clearance procedure which can be used to ~~check~~ get clearance first before gifting to make sure qualifies for gift relief.

The trading requirement is met if ~~gifted~~ ~~not~~ ~~available~~, then your shares will ~~still~~ qualify for entrepreneurs relief (ER) since the company is your personal service company, that is trading and you have owned the shares for at least 12m and you work for the company. This means that the gain of £269,630 chargeable now will ~~be~~ be charged to tax at 10% rather than 10% or 20% depending on other income.

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- | | |
|--|---|
| <input checked="" type="checkbox"/> Taxation of Owner-Managed Businesses | <input type="checkbox"/> Taxation of Individuals |
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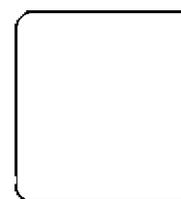
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I hope this is of use to you and if you need any further help or advice please let me know.

Yours sincerely

Tax Advise



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