

**The Chartered Institute of Taxation**

**Advanced Technical**

**Taxation of Owner-Managed Businesses**

**November 2025**

**Suggested answers**

## Question 1

### Tax adjusted profits allocation

Adjustments to accounting profits – Corporation Tax:

	Notes	£	£
Profits as per draft accounts			61,500
Add back:			
Purchase of digger	1	45,000	
Purchase of a shed	2	1,750	
Add back pension contributions not paid	3	2,000	
Interest payable to Sandstone LLP	4	15,000	
Depreciation	5	<u>17,000</u>	
			<u>80,750</u>
Deduct:			
Pension contributions from 31 March 2024	3	1,500	
Capital Allowances	6	<u>46,850</u>	
			<u>(48,350)</u>
Tax adjusted profits for the year ended 31 March 2025			<u>93,900</u>

Adjustments to accounting profits – Income Tax:

	Notes	£	£
Profits as per draft accounts			61,500
Add back:			
Purchase of digger	1	45,000	
Purchase of a shed	2	1,750	
Add back pension contributions not paid	3	2,000	
Interest payable to Sandstone LLP	4	15,000	
Depreciation	7	22,000	
Workshop – personal use (£43,750 x 10%)	8	<u>4,375</u>	
			<u>90,125</u>
Deduct:			
Pension contributions from 31 March 2024		1,500	
Capital Allowances	9	<u>12,650</u>	
			<u>(14,150)</u>
Tax adjusted profits for the year ended 31 March 2025			<u>137,475</u>

### Profit allocations

	Hashan (£)	Millie (£)	Sandstone Ltd (£)	Notes
Interest on Capital			15,000	10
Adjusted taxable profits	<u>48,990</u>	<u>48,990</u>	<u>15,780</u>	
Total profit allocation	<u>48,990</u>	<u>48,990</u>	<u>30,780</u>	

Adjusted profits workings:

Hashan and Millie – (£137,475 - £15,000) x 40%  
Sandstone Ltd – (£93,900 - £15,000) x 20%

Notes:

- 1) The purchase of the new digger is capital expenditure and therefore added back.
- 2) The purchase of the shed is capital expenditure and therefore added back. No Structures and Buildings Allowance is available as the shed is located at Hashan's private residence.
- 3) Only pension contributions physically paid in the accounting period attract tax relief. Therefore, the contributions which were accrued in the previous year but paid on 10 April 2024 are deducted. The pension contributions paid after 31 March 2025 are added back.

The staff bonuses are not added back as they were paid within 9 months of the year end date.

- 4) Interest paid to a partner is not tax deductible, instead it will be an allocation of profit in preference towards Sandstone Ltd.
- 5) Depreciation (£22,000 - £5,000) is not allowable. Instead, there is tax relief via Capital Allowances. The amortisation is allowable for Corporation Tax, so it is not added back.
- 6) Capital Allowances:

	Main pool	Allowances
	£	£
TWDW b/fwd	10,280	
Additions:		
New digger (full expensing)		45,000
WDA at 18% (10,280 x 18%)	<u>(1,850)</u>	1,850
TWDV c/fwd	<u>8,430</u>	
Allowances		<u>46,850</u>

There is no Annual Investment Allowance available for Greenfingers LLP as it is a mixed partnership. However, Sandstone Ltd can claim full expensing for the new digger.

7) Depreciation and amortisation – Income Tax

Neither the depreciation nor amortisation is deductible for Income Tax. Instead, the software costs will qualify for Capital Allowances.

8) Premises costs – Income Tax

The workshop is partly used for non-business purposes and therefore an adjustment for private use is required (£43,750 x 10%).

9) Capital Allowances – Income Tax

	Main pool £	Allowances £
TWDW b/fwd Additions	10,280	
New digger	45,000	
Software Development	<u>15,000</u>	
	70,280	
WDA at 18% (70,280 x 18%)	<u>(12,650)</u>	12,650
TWDV c/fwd Allowances	<u>57,630</u>	<u>12,650</u>

10) Profit allocation

The interest on the start-up capital (£15,000) is allocated before any profit allocation. Hashan and Millie's profit allocation is calculated using Income Tax rules, and Sandstone Ltd's profit allocation is calculated using Corporation Tax rules.

Sandstone Ltd - Corporation Tax computation for the year ended 31 December 2024

Total taxable profits before partnership profit allocation	£	£
	140,000	
Profits from Greenfingers LLP year ended 31 March 2024 (£72,000 x (3/12))	18,000	
Profits from Greenfingers LLP year ended 31 March 2025 (£30,780 x 9/12)	<u>23,085</u>	
Total taxable profits after profit allocation		<u>181,085</u>
Total taxable profits at 25% (£181,085 x 25%)	45,271	
Less: Marginal relief (3/200 x (250,000 – 181,085) x (181,085 ÷ 181,085))	<u>(1,034)</u>	
Corporation Tax liability for the year ended 31 December 2024		<u>44,237</u>

The Corporation Tax is payable by 1 October 2025.

## MARKING GUIDE

TOPIC	MARKS
<b>Requirement 1 – Tax adjusted loss for the year ended March 2025</b>	
Recognition that two profit adjustments are required	2
Add back digger costs	0.5
Add back shed costs	0.5
No Structures and Buildings Allowance on shed as on property owned by Hashan	1
Pension contributions adjustments	1
Explanation as to why staff bonuses are not added back	0.5
Add back interest payable to Sandstone Ltd	1
Add back depreciation but allowing the amortisation for Corporation Tax purposes	1
No Annual Investment Allowance available	1
Capital Allowances computation – Corporation Tax	1
Add back depreciation and amortisation – Income Tax	0.5
Add back personal use of workshop – Income Tax	1
Capital Allowances computation – Income Tax	2
Profit allocation between partners – Hashan and Millie	2
Profit allocation between partners – Sandstone Ltd	1
<b>Requirement 2 – Corporation Tax computation</b>	
Calculation of pro-rated total taxable profit allocation from partnership	2
Calculation of Corporation Tax, including marginal relief	1.5
Corporation Tax due date	0.5
<b>TOTAL</b>	<b>20</b>

## Question 2

### Net proceeds received by John

	Share sale £	Trade sale £
Share sale/liquidation proceeds (working 2)	1,693,728	1,484,938
Capital Gains Tax liability (working 1)	<u>(203,146)</u>	<u>(161,387)</u>
Net proceeds	<u>1,490,582</u>	<u>1,323,551</u>

The share sale option gives John £167,031 more net proceeds.

### *Working 1 - Capital Gains Tax calculations*

	Share sale £	Trade sale £
Proceeds (working 2)	1,693,728	1,484,938
Cost (note 1)	<u>(175,000)</u>	<u>(175,000)</u>
Capital gain	1,518,728	1,309,938
Annual exempt amount	<u>(3,000)</u>	<u>(3,000)</u>
Taxable gain	<u>1,515,728</u>	<u>1,306,938</u>
CGT at 10% (£1,000,000) (note 2 and 3)	100,000	100,000
CGT at 20% (Balance)	<u>103,145</u>	<u>61,387</u>
Total Capital Gains Tax	<u>203,145</u>	<u>161,387</u>

### Note

- 1) The base cost of the shares is their probate value, as they were transferred on John's father's death.
- 2) The disposal qualifies for Business Asset Disposal Relief as John has held more than 5% of the company's ordinary shares, voting and economic rights for more than two years, the company has been a trading company for the last two years and John has been a director throughout that time.
- 3) Although, on a trade sale, the trade will have ceased by the time the liquidation distribution is eventually made, the qualifying conditions will have been met for the two years prior to the trade ceasing and the shares should have been disposed of within the following three years.

### *Working 2 - Amounts available for distribution/value of shares*

	Share sale £	Trade sale £
Net assets at market value per estimated Balance Sheet	1,730,000	1,730,000
Corporation Tax (working 3)	<u>(36,272)</u>	<u>(245,062)</u>
Value of company for share sale	<u>1,693,728</u>	
Amount able to be distributed to shareholder		<u>1,484,938</u>

*Working 3 - Corporation Tax calculation*

	Share sale £	Trade sale £
Profit before Capital Allowances	165,250	165,250
Capital Allowances (workings 4 and 5)	(14,220)	(10,000)
Chargeable gains (working 6):		
Goodwill	n/a	700,000
Freehold property	n/a	125,000
Taxable profits	<u>151,030</u>	<u>980,250</u>
Corporation Tax at 25%	37,757	245,062
Marginal relief ((£250,000 – £151,030) x 3/200)	(1,485)	
Corporation Tax liability	<u><u>36,272</u></u>	<u><u>245,062</u></u>

*Working 4 - Capital Allowances calculation – share sale*

	AIA £	Main pool £	Special rate pool £	Allowances £
TWDV b/f		45,000	12,500	
Additions:				
Laptops	6,000			
Disposals:				
Office equipment		(3,500)		
	<u>6,000</u>	<u>41,500</u>	<u>12,500</u>	
AIA	(6,000)			6,000
WDA at 18%		(7,470)		7,470
WDA at 6%			(750)	750
	<u>-</u>	<u>34,030</u>	<u>11,750</u>	
Total allowances				<u><u>14,220</u></u>

*Working 5 - Capital Allowances calculation – trade sale*

	Main pool £	Special rate pool £	Allowances £
TWDV b/f	45,000	12,500	
Additions:			
Laptops	6,000		
Disposals:			
Office equipment	(3,500)		
Market value of Plant and Machinery at 31 March 2026 (note 1)	(50,000)		
	<u>(2,500)</u>	<u>12,500</u>	
Balancing charge	2,500		(2,500)
Balancing allowance		(12,500)	12,500
	<u>-</u>	<u>-</u>	
Total allowances			<u><u>10,000</u></u>

Notes:

- 1) The remaining plant and machinery is disposed of by John's Joinery Ltd at 31 March 2026.
- 2) No Annual Investment Allowance is given as the trade is ceasing.

*Working 6 - Chargeable gains calculations*

	Goodwill	Freehold property
	£	£
Proceeds	700,000	800,000
Less:		
Cost	nil	(450,000)
Indexation Allowance (50% of cost)	nil	(225,000)
	<hr/>	<hr/>
Chargeable gain	<u>700,000</u>	<u>125,000</u>

**MARKING GUIDE**

Calculation of net proceeds received	1.5
Conclusion	0.5
Capital Gains Tax calculations	2
Base cost of shares is probate value	0.5
BADR explanation – share sale	1.5
BADR explanation – trade sale	1
Amounts available for distribution/share value	2
Corporation Tax calculation:	
Deduction of Capital Allowances	0.5
Addition of chargeable gains	1
Calculation of Corporation Tax	1.5
Capital Allowances – share sale:	
Addition and disposal	1
Calculation of Capital Allowances	1.5
Capital Allowances – trade sale:	
No AIA and explanation	1.5
Disposal of plant and explanation	1.5
Calculation of Capital Allowances	1
Calculation of chargeable gains	1.5
<b>Total</b>	<b>20</b>

### Question 3

#### Quantification of errors

	Note	£
Taxable profits as returned		69,475
Add:		
Private use of car by Kay – expenses (25%)	1	1,688
Reduction in Capital Allowances	2	4,275
Salary paid to son	3	7,500
Less:		
Class 1A National Insurance on car and fuel benefit for Ruth	4	(364)
Subsistence costs omitted	5	(1,500)
Corrected taxable profits		<u>£81,074</u>

#### Notes:

- Private use of an asset by the sole trader is not deductible for tax purposes.
- The correct Capital Allowances computation is as follows:

	AIA	Special rate pool	Private use (MP) – 25%	Allowances
	£	£	£	£
TWDV b/f		-	-	-
Additions:				
Car (50g/km)			35,000	
Office equipment	6,500			
Car (80g/km) (SRP as CO <sub>2</sub> > 50g/km)	<u>-</u>	<u>22,500</u>	<u>-</u>	
	6,500	22,500	35,000	
Annual Investment Allowance	(6,500)			6,500
WDA at 18% (25% PU)			(6,300)	4,725
WDA at 6%	<u>-</u>	<u>(1,350)</u>	<u>-</u>	<u>1,350</u>
TWDV c/f	<u>-</u>	<u>21,150</u>	<u>28,700</u>	
Total allowances				<u>12,575</u>

The reduction in Capital Allowances is (£16,850 - £12,575) = £4,275

- As Kay's son is only aged 5, he is not legally able to work and therefore this cost will not be incurred "wholly and exclusively" for the purposes of the business, so is not deductible.

4. There is no private use adjustment for private use of a car by an employee, but there is a benefit in kind charge on which Kay, as the employer, should have paid Class 1A National Insurance.

	£
List price	22,500
CO <sub>2</sub> %	21%
Benefit in kind (per annum)	4,725
Fuel benefit	27,800
CO <sub>2</sub> %	21%
Benefit in kind (per annum)	5,838
Total BIK	10,563
Pro-rated (1 Jan 23 – 31 Mar 23)	2,641
Class 1A National Insurance at 13.8%	<u>£364</u>

5. Subsistence costs are deductible where there is an overnight stay on a business trip.

	£
Additional taxable profits (above)	11,599
Income Tax at 40%	4,640
Class 4 National Insurance at 2%	<u>232</u>
Total	<u>£4,872</u>

#### Correction of errors and penalties

The deadline to amend Kay's tax return passed on 31 January 2025. Kay should therefore make a voluntary disclosure of the errors to HMRC.

All of the errors (including those in favour of Kay) should be included within the disclosure. The additional Income Tax and Class 4 National Insurance of £4,872 will need to be paid to HMRC.

As Kay completed her 2022/23 tax return by herself, without any professional assistance or detailed tax knowledge, HMRC are likely to regard her behaviour as being careless. As there is no evidence that HMRC were likely to discover the errors, the disclosure should be treated as being unprompted.

As a result, the range of the penalty which could be charged is 0% to 30% of the underpaid Income Tax and National Insurance – between £0 and £1,462. Where in this range a penalty would fall will depend on the assistance Kay gives HMRC.

If the behaviour is treated as careless, Kay may be able to apply to have the penalty suspended for two years, provided suspension conditions can be agreed with HMRC. If the conditions are met throughout the suspension period, the penalty will be cancelled.

## MARKING GUIDE

<b>Part 1 – Calculation of errors and additional tax</b>	<b>10</b>
<i>Quantification of errors:</i>	
Private use expense adjustment	1
Capital Allowance differences	2.5
Salary paid to son	1
Class 1A National Insurance on car and fuel benefit	1.5
Class 1A National Insurance on car and fuel benefit – calculation	2
Subsistence costs omitted	1
Additional income tax and Class 4 National Insurance	1
<b>Part 2 – Correction of errors</b>	<b>5</b>
Amendment deadline passed	0.5
Voluntary disclosure	1
Careless behaviour	0.5
Unprompted disclosure	0.5
Penalty range	1.5
Potential suspension	1
<b>Total</b>	<b>15</b>

#### **Question 4**

##### Taxable trading profits under cash and accruals basis

###### *Cash basis*

Farid's profits under the cash basis will be calculated as follows:

		£	£
Sales for the year			48,000
Add:			
Income invoiced in 2023/24	5,000 – 1,000	4,000	
Transitional adjustment on computer equipment	18 x 375	<u>6,750</u>	
			10,750
Less:			
Insurance prepaid in 2023/24	1,500 – 375	1,125	
Insurance in 2024/25		1,600	
Bank interest paid		750	
Hire purchase payments (computer)	12 x 375	4,500	
Balance of Tax Written Down Value of main pool		8,000	
Van		<u>11,000</u>	
			<u>(26,975)</u>
Tax adjusted profit			<u><u>31,775</u></u>

###### *Accruals basis*

Farid's profits under the accruals basis will be calculated as follows:

		£	£
Turnover for the year			55,000
Add:			
Income from artworks delivered in 2024/25		<u>4,000</u>	
			4,000
Less:			
Insurance (1 April 2024 to 31 December 2024)	1,500 x 9/12	1,125	
Insurance (1 January 2025 to 31 March 2025)	1,600 x 3/12	400	
Bank interest paid		750	
Capital Allowances (Working 1)		<u>12,440</u>	
			<u>(14,715)</u>
Tax adjusted profit			<u><u>44,285</u></u>

From these calculations, the cash basis will be the most beneficial accounting method as it will result in taxable trading profits which are £12,510 lower.

Working 1 - Capital Allowances (accruals basis):

	Main pool		Total CAs
	£		£
y/e 31 March 2025			
TWDV b/f	8,000		
Additions:			
Van	11,000		
AIA @ 100%	(11,000)		11,000
WDA @ 18%	(1,440)		1,440
TWDV c/f at 31 March 2025	6,560		12,440

Tax payments due

		£
Trading profits		31,775
Total income		31,775
Less Personal Allowance		(12,570)
Taxable income		19,205
Income Tax at 20%	19,205 x 20%	3,841
Class 4 National Insurance	6% x 19,205	1,152
		4,993
<b>31 January 2026</b>		
Balancing payment	(4,993 - 6,000)	(1,007)
First payment on account 2025/26	4,993 ÷ 2	2,497
<b>Total payable by 31 January 2026</b>		1,490
<b>31 July 2026</b>		
Second payment on account 2025/26		2,497

The cash basis will be the default in 2024/25 and there is therefore no claim that Farid needs to make.

If he did choose to use the accruals basis, he would need to elect to do this through ticking the appropriate box on his self-assessment tax return.

## MARKING GUIDE

TOPIC	MARKS
<b>Part 1 – Comparative calculations</b>	
<b>Cash basis calculation</b>	
Correct profit	0.5
Adjustment to add income received in 2023/24	1
Adjustment to include Capital Allowances claimed on computer equipment	1
Insurance	1
Hire purchase adjustment	0.5
Van	0.5
Deduct TWDV from general pool	0.5
<b>Accruals basis calculation</b>	
Correct profit	0.5
Insurance calculation	1
Capital allowances on van and TWDV b/f included	1
<b>General</b>	
Inclusion of bank interest paid on both computations	1
Calculation of Capital Allowances	1
Conclude that cash basis is more favourable	0.5
SUBTOTAL	10
<b>Part 2 – Calculate tax payments due</b>	
Calculate taxable income	0.5
Calculation of Income Tax	0.5
Calculation of Class 4 National Insurance	0.5
No Class 2 National Insurance	0.5
Tax payments	
- Balancing payment	1
- Payments on account (excluding Class 2)	1
Cash basis treatment automatic from 2024/25	0.5
Opt out claim	0.5
SUBTOTAL	5
<b>TOTAL</b>	<b>15</b>

## Question 5

### Close company tests

Participants include both individuals and companies. A company is close where there are five or fewer participants, or any number of directors who are also participants, that control the company. Control can be obtained through holding more than 50% of the company's share capital or voting power, or entitlement to more than 50% of the distributable profits or assets distributable on a winding up.

When considering the shareholdings of participants, shareholdings of their associates are treated as controlled by the participant themselves. In this scenario, Paul is an associate of Max, as he is his son.

None of the other shareholders are associates of one another - including Max and Jenny, as they are not spouses or civil partners - and each would therefore be treated as separate participants for these tests.

Test 1 – five or fewer participants control the company?

The top five participants are Max (controls 1,400 shares, including the 200 held by Paul), John and Jenny (each own 1,000), Martha and Fiona (each owning 750 shares). In total they control 4,900. This represents a 49% holding which is not enough to constitute control. Test 2 needs to be considered.

Test 2 – control of company via the directors?

The shareholdings of all of the directors are considered to see if control is reached. Managers who influence the company on similar lines as a director will be treated as a director for this test. Phil would fall into this category, but as he does not control at least 20% of the company, he is discounted for this purpose.

The shareholdings of all of the directors (including Max's associate Paul) would come to 5,100. This is a 51% shareholding in the company and constitutes control.

Frankscape Ltd would therefore be treated as a close company.

### Loans to participants

As shareholders of Frankscape Ltd, both Phil and Fiona are participants.

#### *Loan to Phil*

When the £42,000 loan was made to Phil during the company's year ended 28 February 2021, s.455 tax at 32.5% (as the loan was made before 6 April 2022) would have been payable to HMRC on the company's normal payment date. Frankscape Ltd has never paid tax by instalments and so £13,650 would have been payable on 1 December 2021.

As the company has always charged a lower rate of interest than the official rate (2.25% in 2020/21, 2% in 2021/22 and 2022/23 and 2.25% for 2023/24 and 2024/25), the loan would be treated as a beneficial loan. A benefit, equal to the difference in the interest calculated using HMRC's official rate and the amount of interest actually paid, would have been taxable on Phil each year. The company would be liable to pay Class 1A National Insurance at 13.8% on the value of the benefit each year. The company would have received a Corporation Tax deduction for any Class 1A National Insurance paid.

The write-off of the loan will be treated as a taxable dividend of £42,000 received by Phil in 2025/26, being the tax year of the write-off.

If the loan is written off on 31 March 2026, the write-off will be an expense in the company's accounts for the year ended 28 February 2027. This is not deductible from the company's trading profits.

Upon making a claim, Frankscape Ltd will be able to obtain a repayment of the s.455 tax of £13,650 from HMRC. This would be deducted from the Corporation Tax liability for the year of the write-off, i.e. the year ended 28 February 2027. The s.455 tax would therefore become repayable on 1 December 2027. The company must make a claim for this repayment by 28 February 2031 (being four years after the end of the accounting period of the write-off).

As the loan being written off was made to an employee, the £42,000 will be treated as 'earnings' for National Insurance purposes and Frankscape Ltd will be liable for Class 1 employer's National Insurance at 13.8% (£5,796), which would be deductible for Corporation Tax purposes. In addition, there would be primary Class 1 National Insurance payable of £840 (£42,000 x 2%). These amounts would be payable along with the normal March 2026 PAYE and National Insurance due by 22 April 2026.

Phil's employment benefit will also cease from the date of repayment. The company will no longer be liable to pay Class 1A National Insurance from that date.

If the loan was written off on 28 February 2026, this would have been in the company's year ended 28 February 2026, rather than the following year. This would mean that the s.455 tax would be repayable 12 months earlier, on 1 December 2026 rather than 2027. In addition, one month less Class 1A National Insurance would be payable by the company.

#### *Loan to Fiona*

s.455 tax at 33.75% would have been payable by 1 December 2024 based on the lower of the loan value at the end of the year ended 28 February 2024 (£100,000) and the due date of payment (1 December 2024). A repayment was made prior to 1 December 2024 of £40,000 which means that the loan will only be £60,000 when the s.455 tax is due.

However, there are anti-avoidance provisions which prevent a loan from being taken into account where, within a period of 30 days, £5,000 or more is repaid and £5,000 or more is borrowed. These provisions do not apply where the repayment is made from income subject to Income Tax. £40,000 was repaid on 15 November 2024 and £30,000 was borrowed on 6 December 2024, within 30 days of the repayment. The repayment was made from Fiona's own funds, and not from income subject to Income Tax.

As such, the £40,000 repayment will be treated as repaying the new loan first and therefore only the excess of £10,000 would be deducted from the value of the original loan.

As a result, the balance of the original loan at 1 December 2024 was £90,000 and s.455 tax payable on that date was  $33.75\% \times £90,000 = £30,375$ .

This will be repayable to the company when the £90,000 loan is repaid in the future.

## MARKING GUIDE

TOPIC	Marks
1)	
Close company general rules:	
Need control	0.5
Associates discussion	1.5
Test 1:	
Five largest shareholders	0.5
Do not meet definition	0.5
Test 2:	
Directors	0.5
Managers issue but not applied to Phil	0.5
Control met	0.5
Conclude close company	0.5
<b>SUB TOTAL</b>	<b>5</b>
2)	
Phil and Fiona re participators	0.5
Phil's loan:	
Notional Corporation Tax	0.5
At 32.5%	0.5
Company not large	0.5
When payable	0.5
Amount of Notional Corporation Tax	0.5
Beneficial loan	0.5
Class 1A National Insurance	0.5
Loan write-off:	
Taxable dividend	0.5
Expense treatment	0.5
Repayment of Notional Corporation Tax	0.5
Year of write-off	0.5
1 December 2027	0.5
Claim date	0.5
Employer's National Insurance	1.0
Employee's National Insurance	0.5
Value of National Insurance and date	1.5
No longer liable for Class 1A National Insurance	0.5
Planning	1.0
Fiona's loan:	
Notional Corporation Tax	0.5
Repayment of loan	1.0
Anti-avoidance rules	1.0
Amount of Notional Corporation Tax	0.5
When repayable	0.5
<b>SUB TOTAL</b>	<b>15</b>
<b>TOTAL</b>	<b>20</b>

## Question 6

On payment of the invoice in January 2025, Steve received a taxable post-cessation receipt. This will be taxable in 2024/25 as this was the tax year he received the income.

Steve is entitled to relief for post cessation expenses that would have been allowed had the trade continued and which are incurred within seven years of the cessation of trade.

For post cessation expenses to be allowable, they must be a 'qualifying payment'. This includes legal or professional costs defending a claim that work done was defective. It also includes fees incurred in the collection of debts that were owed to the trader prior to the cessation of trade. Steve would therefore be able to claim the £1,000 debt collection fee and the £21,000 legal fees.

In respect of the physiotherapy fees, these are not a qualifying payment as they would not have been deductible when calculating trade profits.

Post-cessation expenses can be claimed in the following order:

- deducted from post-cessation receipts arising in the same period
- as losses which can be set against total income
- as losses which can be deducted from chargeable gain
- carried forward to be deducted against future post-cessation receipts from the same trade.

We would therefore first offset the £22,000 expenses against the £10,000 receipt he received. He then has £12,000 of unrelieved expenses remaining.

s.24A ITA 2007 restricts the amount of post-cessation expenses a taxpayer can offset against total income. The amount of relief is restricted to £50,000 or 25% of adjusted total income (whichever is higher). As Steve's only income is a £3,000 private pension there would be no restriction and his total income would be reduced to nil.

Once the net income is utilised to claim the post-cessation expenses, the excess can be set against capital gains of the same year. Steve has £9,000 that he can relieve against his capital gain in the year.

The chargeable gain on the disposal of his investments is:

	£
Proceeds	15,000
Cost	<u>(10,750)</u>
Chargeable gain	<u><u>4,250</u></u>

This chargeable gain can be reduced to nil by utilising the post cessation expenses, but Steve will lose the benefit of his annual exemption.

The remaining £4,750 (£9,000 - £4,250) of unclaimed expenses can be carried forward to use against future post-cessation receipts.

A claim to deduct post-cessation receipts must be made by the first anniversary of the 31 January self-assessment deadline for the tax year in which the qualifying expense was incurred. So as the qualifying payment was made in 2024/25 the relief must be claimed by 31 January 2027.

Steve would also be able to make an election to treat the income received as taxable in 2023/24. His income in 2023/24 totalled £30,000 compared to £3,000 in 2024/25. It would not be tax efficient for him to make the election because in 2024/25 his income would be largely covered by the tax-free Personal Allowance. The income would be fully taxed at 20% in 2023/24 if this election was made.

## MARKING GUIDE

TOPIC	MARKS
Receipt of payment from previous bad debt is taxable income (post-cessation receipt)	0.5
Taxed in year of receipt	0.5
Not beneficial	0.5
Discuss when post cessation expenses allowable	1
Identify debt collection and legal fees as qualifying post cessation expenses	1
Physiotherapy not allowable	0.5
Identify order of reliefs	0.5
Offset against receipts	0.5
Offset against 2024/25 income and quantify	1
s.24A ITA 2007 restriction	1
Offset against 2024/25 chargeable gain and quantify	1
Carrying forward unused receipts and quantify	1
Identify date election must be made	0.5
Could elect to tax receipt in year of cessation	0.5
<b>TOTAL</b>	<b>10</b>