CIOT - CTA

Paper: **Awareness**

Part/Module: **Module A**

Answer-to-Question-_1_

(1) Jane will be eligible to join the Flat rate scheme provided that her VAT exlusive taxable turnover for the year does not exceed 150,000- her business is also no 'associated' with another business. Jane can join the scheme, and will only be forced to deregister from it once her turnover exceeds 230,000.

(2) Current VAT Position

Input: 24,000 x 20% = 4,800
Output: 3,000 x 20% = 600

Total VAT Payable: 4,200

Flat Rate Scheme:

24,000 x 1.2 = 28,800 x 13% = 3,744

Based on the calculations above, it would be financially beneficial for Jane to join the flat rate scheme (saving of 4,200-3,744 = 456).

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

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

Answer-to-Question-_2_

- The Tax point in regards to the continuous service is the earliest of the payment or invoice, which in this case is the payment on the fifteenth of the month.

- The service in regards to Steven, is to be split into the deposit and balancing payment.

- On deposit the basic tax point is the delivery of services (30/01/2024), however, this is overridden by the payment of the deposit on 27/12/2023. Therefore the actual tax point for the deposit is the 27/12/2023.
- On the balancing payment, the basic tax point is again the point of delivery (30/01/2024), however in this case this is overridden by the issuing of the invoice within 14 days of the service. Therefore the tax point on the balancing payament is the (06/02/2024)

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

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

Answer-to-Question-_3_

- The input tax on the purchase of the car is blocked as this is not a car for trading stock or pool usage.
- The associated costs on purchase are also blocked.
- In regards to recovery of VAT on the fuel. As Clem does not keep a detailed mileage log, this is likely to be calculated based on the fuel scale charge (1/6 of the charge).

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

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

Answer-to-Question-_4_

Bad Debt Relief

1) In order for Shazad to claim bad debt releif, the debt must have been outstandig for at least 6 months from the date of supply. She must have also paid for the VAT liable on the supply, and if conditions are met, write off the debt in her accounts as bad debt.

2)

15 June 2023- 4,800

17 July 2023- 7,200

(12 October out of scope)

Total Inclusive VAT: 12,000

12,000 x 1/6 = 2,000 Bad Debt Relief.

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

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

Answer-to-Question-_5_

(1)

Customer	**Amount**	**VAT**	
UK Registered Business	22,000 x 20%	4,400	
Sale to Registered Business in EU	15,000 x 20%	3,000	
Sales to Individuals in NA	8,000	Zero Rated (NIL)	
LESS			
VAT UK	6,600 x 20%	(1,320)	
VAT consultancy (taxed in place of receipient)	10,000 x 20%	(2,000)	
	Total	4,080	

(2) Due date is 07/03/2024.

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

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

Answer-to-Question-_6_

- Howwzer is able to dereigster as there taxable turnover in a rolling 12 month period is expected to dorp below the degristration threshold of £83,000.

- Output VAT is due on the replacement value of items where input VAT will have been claimed.

	Ammount	VAT	
Standard Rated Stock	800 x 75% = 600	600 x 1/6 = 100	
Computers and office equipment	1,800 x 1/6	300	
Car	Blocked input	0	
Total Output		400	

--------------ANSWER-6-ABOVE---------------

--------------ANSWER-7-BELOW---------------

Answer-to-Question-_7_

- As Morgana has deliberately understated her Output VAT, she is not liable to amend the error in the next quarters return.
- Instead she should notify HMRC of the error and make the payment immeaditely.

Morgana could face a penalty based on the potential lost revenue (9,500).
- The penalty will depend on whether Morgana notifies HMRC or not. If she does, as this was deliberate and not concealed, the penalty range is between 35-75% of the potential lost revenue.

--------------ANSWER-7-ABOVE---------------

--------------ANSWER-8-BELOW---------------

Answer-to-Question-_8_

- For a transaction to be within the scope of VAT, it must be made:

(1) By a taxable person (registered) (2) in the futherance of their business (3) in the United Kingdom (4) not 'exempt' supply (5)

--------------ANSWER-8-ABOVE---------------

--------------ANSWER-9-BELOW---------------

Answer-to-Question-_9_

Land: As their has been an option to tax, this will be standard rated.
Residential Homes: The new freehold properties built on the land are zero rated and will become exempt within 2 years.

--------------ANSWER-9-ABOVE---------------

--------------ANSWER-10-BELOW--------------

Answer-to-Question-_10_

Quarter

400,000/440,000 = 90% Taxable Supplies

40,000/400,000 = 10% Exempt Supplies

	Taxable Supplies	Exempt Supplies	
	29,000	2,750	
	1,600 x 90% = 1,440	1,600 x 10% = 160	
	30,440	2,910	
			De Minimus Test of: 7,500/4 = 1,875
			Failed
Total	30,440		

--------------ANSWER-10-ABOVE--------------

--------------ANSWER-11-BELOW--------------

Answer-to-Question-_11_

1) Stamp duty due on ascertainable contingent consideration element.

(50,000 + 7,500) x 0.5% = £2,875

2)
The stock return form was due for stamping 30 days after the effective completion. 01/12/2023.

Initial penalty is due of £100.

--------------ANSWER-11-ABOVE--------------

--------------ANSWER-12-BELOW--------------

Answer-to-Question-_12_

Option 1:

Above 625,000 threshold.

250,000 x 0% = 0

410,000 x 5% = 20,500 Stamp duty due.

Option 2:

Residential

250,000 x 0% = 0
170,000 x 5% = 8,500

Commericial:

150,000 x 0% = 0
95,000 x 2% = 1,900

--------------ANSWER-12-ABOVE--------------

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Part/Module: **Module B**

--------------ANSWER-13-BELOW--------------

Answer-to-Question-_13_

- No IHT payable on first gift into trust as covered by the AEAs and Nil rate Band (180,000 - 6,000 = 174,000   174,000 - 325,000 = NIL)
- No lifetime IHT payable on Potentially exmept Transfer (PET)

Discretionary trust 01/10/2023

Gift into Trust	300,000		
LESS AEA	(3,000)		
LESS NRB		(325,000)	
Adjusted for CLTs in last 7 years		(180,000-6,000) 174,000	
Revised Nil rate Bad	(151,000)		
Total	149,000		
IHT at 20/80	37,250		

--------------ANSWER-13-ABOVE--------------

--------------ANSWER-14-BELOW--------------

Answer-to-Question-_14_

- The 20,000 shares will be valued at the lower of the 'quarter up' value and the 'average of marked bargains' (Quarter up, 6.02 + 0.02 = 6.04) (Average of marked bargains is (6.02+6.08)/2 = 6.05. Therefore the shares will be valued as 6.04 x 20,000 = 120,800
- This value will be reduced by the marriage allowance of (£2,500), however as the AEAs have been used this wil not be available.
- The gift will be a PET, and will only become taxable if Niklaus passes within 7 years.

--------------ANSWER-14-ABOVE--------------

--------------ANSWER-15-BELOW--------------

Answer-to-Question-_15_

PET	70,000	Gift into Trust	536,250
LESS AEA	(6,000)	LESS Revised Nil rate Band	(261,000)
LESS NRB	(325,000)	Total	275,250
Tax (NIL)		IHT 40%	110,100
Revised Nil rate Band	261,000	Less Lifetime IHT	(42,250)
		Payable	67,850

--------------ANSWER-15-ABOVE--------------

--------------ANSWER-16-BELOW--------------

Answer-to-Question-_16_

(1) As a UK based property asset, this is liable to UK IHT.
(2) Savings held by a Non-UK domiciled individual in a foriegn currency is not liable to UK IHT.
(3) Bank account with UK currency, based in foreign territory is liable to UK IHT.
(4) The shares are not liable to UK IHT as the shares are listed, and thus the share register is likely kept, in Hong Kong.
(5) Not liable to UK IHT as debtor is situated outside of the UK, and debt has not been enforced by UK courts.

--------------ANSWER-16-ABOVE--------------

--------------ANSWER-17-BELOW--------------

Answer-to-Question-_17_

Spousal exemption applies. 2008

Death estate	300,000 + 810,000 = 1,110,000		
LESS Charitable gift	(50,000)		
LESS NRB (W.1) 325,000 x 1.2	(390,000)		
LESS Residents NRB (175,000 x 2)	(350,000)		
Total	320,000		
IHT rate 40% (W.2)	128,000		

W.1

300,000 (2008 NRB)-240,000 = 60,000
60,000/300,000 x 100 = 20%

W.2

Net Esate: 320,000 + 50,000 + 350,000 = 720,000
720,00/10 = 72,000 (no Charitable Relief)

--------------ANSWER-17-ABOVE--------------

--------------ANSWER-18-BELOW--------------

Answer-to-Question-_18_

- The Agricultural propert relief (APR), will be applied to the agricultural value of the land (390,000).
- As a Post-septemebr 1995 lease, APR would have been available at 100% on the intial transfer to Danielle as Nathaniel had owned the land for the last 7 years prior to transfer.
- The reinvestment into quoted investement shares will not be liable to business property relief (non-qualifying property).
- There is no relief for partial reinvestment.

--------------ANSWER-18-ABOVE--------------

--------------ANSWER-19-BELOW--------------

Answer-to-Question-_19_

	Rent	Savings	UK Dividends
	88,000	20,000	4,000
LESS Letting expense	(8,000)		
Total	80,000	20,000	4,000
Tax at 20%/8.75%	16,000	4,000	350
Less Management Expenses	(150)	(4,000)	(350)

--------------ANSWER-19-ABOVE--------------

--------------ANSWER-20-BELOW--------------

Answer-to-Question-_20_

Gift 1- Watch

No Quick succesion releif avialable as outside of the years avalaible. Watch will form part of death estate (45,000)

Gift 2 - Car

120,000 x 50,000/725,000 = 8,276

8,276 x 40% x 50,000/8,276+50,000 = 2,840

--------------ANSWER-20-ABOVE--------------

--------------ANSWER-21-BELOW--------------

Answer-to-Question-_21_

- The gift of monetary consdieration will constitute a PET (potentially exempt transfer), and as Ronaldo benefits from property connected to the gift- this will warrant a POAT charge .
-The POAT charge is calculated on the annual rental value of the property multiplied by the giftors marginal rate of tax, and is limited by the percentage of cosndieration to purchase price (450,000/600,000 75%) and the amount of time the doner lives in the property for (here fulltime).
- Therefore the POAT charge will be 38,400 x 75% x 45% = 12,825.

--------------ANSWER-21-ABOVE--------------

--------------ANSWER-22-BELOW--------------

Answer-to-Question-_22_

- The beneficiaries will liable to pay tax at their marginal rate on the gross transfer (Paula therefore at 33.75%). Any tax paid as part of the adminstration of the trust will deductible as a credit.

--------------ANSWER-22-ABOVE--------------

--------------ANSWER-23-BELOW--------------

Answer-to-Question-_23_

	Shares	Painting	Residential Property
Gain	28,000	–	80,000
LESS LOSS on Painting			(10,000)
LESS AEs (3,000/2)			(1,500)
LESS Captital Losses B/F			(12,000)
Net Gain	28,000		56,500
Tax at 20/28%	28,000 x 20% = 5,600		15,820
Total Payable			21,420

--------------ANSWER-23-ABOVE--------------

--------------ANSWER-24-BELOW--------------

Answer-to-Question-_24_

- The failed PET made to her brother is payable by the beneficiary of the gift (Rodger).
- The IHT due on the estate is to be paid by the executors out of the value of the estate. This is due 12 months from the end of the month of the date of death (01/08/2024).

--------------ANSWER-24-ABOVE--------------

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Part/Module: **Module C**

--------------ANSWER-25-BELOW--------------

Answer-to-Question-_25_

AP 1 (12 months- 01/01/2023-31/12/2024)
Capital loss to carry forward of (3,000)

Adjusted Trading Profit	450,000 x 12/18 = 300,000		
LESS Capital Allowance (W.1)	(161,250)		
LESS Qualifying Charitable Donation	(2,000)		
Total	136,750		

W.1
150,000 x 100% + (30% x 3/12) = (161,250)

AP 6 months (01/01/2024 - 30/06/2024)

Adjusted trading profit	450,000 x 6/18 = 150,000		
Capital gain		21,000	
LESS LOSS		(3,000)	
Gain total	18,000		
Add Rental	24,000/2 = 12,000		
Total	180,000		

--------------ANSWER-25-ABOVE--------------

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--------------ANSWER-26-BELOW--------------

Answer-to-Question-_26_

(1)

TTP: 40,000

Lower threhold: 50,000 x 3/12 = 12,500
Upper Threshold: 250,000 x 3/12 = 62,500

Tax on TTP: 40,000 x 25% = 10,000
LESS Marginal Releif (W.1): (338)
Tax Payable: 9,662

W.1

3/200 x (62,500-40,000) x 40/40 = 337.5 (338)

(2) Return is due 9 months and one day after the AP end.

--------------ANSWER-26-ABOVE--------------

--------------ANSWER-27-BELOW--------------

Answer-to-Question-_27_

Trading profits: 730,000 + 54,400 = 784,400

FYA (100%)	FYA (50%)	AIA	MP	SRP	Charges	CAs
			210,000	80,000		(37,800)
			210,000 x 18% = (37,800)	80,000 x 6% = (4,800)		(4,800)
				Machinery	70,000 x 130%	91,000
				Solar Panels	12,000 x 50%	6,000
					Total	54,400 charge

--------------ANSWER-27-ABOVE--------------

--------------ANSWER-28-BELOW--------------

Answer-to-Question-_28_

- The stamp duty land tax will form part of the cost of the asset so will increase the gain.
- SBAs will be deducted from the capital value of the asset so will reduce the gain.
- Legal fees will be deductible from gross proceeds, thus reducing the gain.

--------------ANSWER-28-ABOVE--------------

--------------ANSWER-29-BELOW--------------

Answer-to-Question-_29_

- As both assets were used as part of trade (qualifying assets), rollover releif is available.

- In this instance, only 290,000 of the gross proceeds from the 04/2018 factory have been reinvested, therefore an immediate chargeable gain arises (30,000).
- This will reduce the amount of the gain able to be rolled over into the fixed plant and machinery (a qualifying asset)(320,000 - 275,000 = 45,000 - 30,000 = 15,000).

- As the fixed plant and machinery is a depreciating asset, the rolled over gain is not deducted from the base cost of the asset, rather it is frozen. The gain will then become chargeable on the first of the following events (1) the elapsing of 10 years (2) the sale of the machinery (3) the cessation of the machiery's use in the trade.

--------------ANSWER-29-ABOVE--------------

--------------ANSWER-30-BELOW--------------

Answer-to-Question-_30_

-

--------------ANSWER-30-ABOVE--------------

--------------ANSWER-31-BELOW--------------

Answer-to-Question-_31_

(1)

- Bapple could elect to use a current year claim to reduce the NTLR credits. It could then make a carry back claim to relieve profits in the prior year. Equally, it could wait and relieve profits in the year 31/03/2025.
- Alternatively, Bapple could elect to give loss relief to Amplar in the current year.

(2) The election to transfer losses Amplar in the current year would appear the most beneficial as it will save Amplar tax at the effective marginal rate of (26.5% versus 19%).

--------------ANSWER-31-ABOVE--------------

--------------ANSWER-32-BELOW--------------

Answer-to-Question-_32_

(1) For the substantial shareholding exemption to apply, the entity must have owned at least 10% of the shares (voting capital) in the company for at least 12 months in the 6 years prior to disposal.

(2) Here, Gymnaa began with only a 5% of the shareholding, however attained a 12% holding in 01/06/2023. They did not, however, possess that 10%+ holding for more than 12 months in the 6 years prior to disposal. Therefore the substantial shareholding exemption does not apply.

--------------ANSWER-32-ABOVE--------------

--------------ANSWER-33-BELOW--------------

Answer-to-Question-_33_

Large Trading company
(1)

Trading Loss	(750,000)		
ADD RDEC 2,000,000 x 20% = 400,000	400,000		
Total Trading Loss	(350,000)		

(2) RDEC Repayment of (350,000)

Lower of:

the RDEC Credit at 20% = (400,000)

Surrenderable Loss: (350,000)

then lower of

(350,000)

and 20,000 + (275,000 x 3) = (845,000)

--------------ANSWER-33-ABOVE--------------

--------------ANSWER-34-BELOW--------------

Answer-to-Question-_34_

Residential Property Rent	1,500 x 7 = 10,500 2,000 x 3 = 6,000	16,500	
LESS Cleaning		(2,500)	
Conversion		NIL- Capital work	
New Furniture		NIL- No indications of replacement furniture.	
LESS Advertising		(1,500)	
Total Profits		12,500	

--------------ANSWER-34-ABOVE--------------

--------------ANSWER-35-BELOW--------------

Answer-to-Question-_35_

	UK	Overseas PE	CFC
Profit	520,000	45,000	225,000 x 25% = 56,250
CT at 25%	130,000	11,250	14,063
LESS Tax Credit (Lower of overseas tax credit (14,400), or UK tax (11,250)		(11,250)	
Tax payable	130,000	NIL	14,063

--------------ANSWER-35-ABOVE--------------

--------------ANSWER-36-BELOW--------------

Answer-to-Question-_36_

- The Filing date for the return, and the payment due date is 9 months and one day after the end of the accounting period in question (01/01/2023).

--------------ANSWER-36-ABOVE--------------
