


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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	1012	5223	6064
Section 2	1107	5628	6541
Section 3	863	4104	4892
Section 4	859	4090	4837
Section 5	1110	5031	6051
Section 6	510	2460	2946
Total	5461	26536	31331

Answer-to-Question-__1__

Requirement 1

Greenfingers LLP is a mixed partnership as it has at least one corporate partner and one individual partner.

For the purposes of calculating the tax adjusted profits two computations must be completed.

Firstly one for the individual partners calculated based on the income tax legislation.

Secondly one for the corporate partners calculated based on the corporation tax legislation.

Net profit allocation for individual partners

Net profit	£61,500	Note	
Cost of sales	£46,750	1	
Staff costs	£500	2	
Interest payable	£15,000	3	
Premises costs	£4,375	4	
Depreciation	£22,000	5	
Amortisation	(£0)	5	
Capital allowances	(£9,981)	6	
Adjusted net profit	£140,144		

Note 1

The new digger and shed are capital expenditure qualifying for capital allowances.

They are not deductible against trade profits through cost of sales.

Note 2

Employee bonuses are allowable as they were paid within nine months following the year end.

Pension costs are only allowable in the period in which they are paid.

The pension contributions paid of £2,000 on 14 April 2025 are outside the year end and will obtain tax relief in the 2025/26 tax year.

However tax relief will be available for the £1,500 pension contributions which relating to the previous tax year that were paid on 10 April 2024.

The net adjustment required is therefore £500 (£2,000 - £1,500).

Note 3

The interest payable to Sandstone Ltd is not an allowable tax deduction as this is included as part of the tax adjusted profit allocations between the partners.

Note 4

10% of the premises costs are not allowable as this relates to private usage by Hashan.

The total premises costs were £43,750 with 10% being £4,375.

Note 5

Depreciation is not allowable as this is a capital expense and dealt with through capital allowances.

As the intangible software was acquired after April 2002 it qualifies for amortisation relief but only for companies. Amortisation relief will be available for Sandstone Ltd when calculating its corporation tax liability.

Note 6 - capital allowances

	Main pool	Special rate pool		
TWDV b'fwd	£10,280			
Additions				
Digger	£45,000			
Balance	£55,280			
Less WDA at 18%	(£9,950)			
TWDV c'fwd	£45,330			
Total allowances	£9,950			

As this is a mixed partnership with at least one corporate partner and one individual partner no annual investment allowance is available when calculating the individual partners' taxable profits for the year.

Structures and buildings allowance (SBAs)

The new shed acquired for £1,750 qualifies as a structure for SBAs.

As Hashan is not charging the partnership for use of the shed SBAs are still available despite being located on Hashan's private residence.

SBAs are calculated at 3% from the later of the date of payment and the date the asset was first brought into use.

The shed was acquired on 18 August 2024 and it is assumed that it was also brought into use on this date.

There are seven full months in 2024/25 post acquisition of the shed and the SBAs calculated as £31 ($£1,750 \times 3\% \times 7/12$). Strictly SBAs are calculated on a days basis.

An SBA statement will need to be submitted to HMRC notifying the location of the asset, total cost and date first brought into use.

The total plant and machinery and SBA allowances is therefore £9,981 (£9,950 + £31).

Split of net profit between the partners

	Hashan	Millie	Sandstone Ltd	
Total profits				£140,144
Less interest on capital - £150,000 x 10%			£15,000	(£15,000)
Net profit split 40:40:20	£50,058	£50,058	£25,028	£125,144
Total taxable profits for the year to 31 March 2025	£50,058	£50,058	£40,028	£140,144

This represents the tax adjusted profits for the individual partners, Hashan and Millie.

Adjusted profits for corporation tax purposes

Adjusted net profit (as calculated above)	£140,144	Notes	
Amortisation	(£5,000)	1	
Capital allowances	(£36,900)	2	
Tax adjusted trade profits for the period to 31 March 2025	£98,244		

Note 1

For corporation tax amortisation is an allowable expense on the bespoke software.

The options for amortisation relief are using the amortisation included in the accounts of £5,000 or 4% straight line deduction £450 ($£15,000 \times 4\% \times 9/12$).

This is only a timing difference but for cash flow it is more beneficial to claim the amortisation relief as calculated per the accounts.

Note 2 - capital allowances

	Main pool	First year allowances	Allowances
TWDV b'fwd	£10,280		
Additions			
Digger		£45,000	
Less 100% full expensing FYA		(£45,000)	£45,000
Balance	£10,280		
WDA at 18%	(£1,850)		£1,850
Total allowances			£46,850

Whilst no AIA is allowable as a mixed partnership when calculating the corporate partners' share of the taxable profits 100% full expensing is available.

The digger qualifies as this is a new asset (not second hand) and qualifies as plant and machinery.

The SBAs of £31 is calculated as above therefore the total capital allowances are £46,881 ($£46,850 + £31$).

Under the individual partner computation total allowances of £9,981 have been claimed therefore the adjustment required is £36,900 (£46,881 - £9,981).

Allocation of tax adjusted profits for corporate partner

	Hashan	Millie	Sandstone Ltd	
Total profits				£98,244
Less interest on capital - £15,000			£15,000	(£15,000)
Net profits split 40:40:20	£33,298	£33,298	£16,648	£83,244
Tax adjusted profits for the year to 31 March 2025	£33,298	£33,298	£31,648	£98,244

The figure of £31,648 will be Sandstone Ltd's share of the taxable profits for the year to 31 March 2025.

It has been assumed that Sandstone Ltd are not otherwise connected to Hashan or Millie and therefore the mixed partnership anti-avoidance provisions do not apply.

Requirement 2

Share of trading profits for the period to 31 March 2024	£35,000	(£140,000 x 3/12)	
Share of trading profits for the period to 31 March 2025	£23,736	(£31,648 x 9/12)	
Total taxable profits in year to 31 December 2024	£58,736		

Corporation tax at 19%	£9,500	(£50,000)	
Corporation tax at 26.5%	£2,315	(£8,736)	
Total corporation tax due 1 October 2025	£11,815		

As Sandstone Ltd have profits below £1,500,000 and have no associated companies it is considered small/medium for corporation tax purposes with payment due nine months and one day following the year end.

The interest received by the company is already considered as part of the trading profits received from the LLP.

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

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

Answer-to-Question- 2

Sale of shares

On the sale of shares the business of John's Joinery Ltd will be continuing and sold as a going concern at the market value on 31 March 2026.

The current estimated market value of the company is £1,730,000 which does not include the final corporation tax liability for the period to 31 March 2026 which is calculated as follows:

Estimated total taxable profits	£165,250	Notes		
Less Capital allowances	(£14,220)	1		
Adjusted total taxable profits	£151,030			
Corporation tax at 19%	£9,500	(£50,000)		
Corporation tax at 26.5%	£26,773	(£101,030)		
Total corporation tax liability	£36,273			

Note 1 - capital allowances

	Main pool	Special rate pool			Allowances	
TWDV b'fwd	£45,000	£12,500				

Additions						
Laptop	£6,000					
Less AIA	(£6,000)				£6,000	
Disposals						
Office equipment	(£3,500)					
Balance	£41,500	£12,500				
WDA at 18% / 6%	(£7,470)	(£750)			£8,220	
Total allowances					£14,220	

Assuming the laptop is new this qualifies for 100% full expensing however it is more beneficial to claim AIA to reduce the impact of a balancing charge on a future sale.

It is assumed full expensing at 100% was not claimed on the office equipment.

Calculating the capital gain on the shares

After deducting the corporation tax liability the market value of the company assets at 31 March 2026 is £1,693,727 (£1,730,000 - £36,273). This is the proceeds for John.

John acquired the shares from his father on death and will have inherited the shares at probate value of £175,000 not the father's original base cost.

John's capital gains tax liability and net proceeds received is calculated as follows:

Proceeds	£1,693,727		
Less base cost	(£175,000)		
Chargeable gain	£1,518,727		

Less CGT annual exemption	(£3,000)		
Taxable gain	£1,515,727		
CGT at 10%	£100,000	Business asset disposal relief - £1,000,000	
CGT at 20%	£103,145	Balance of £515,727	
Total CGT due 31 January 2027	£203,145		
Net proceeds received	£1,490,582	(£1,693,727 - £203,145)	

For the shares to qualify for Business Asset Disposal Relief (BADR) as a material disposal the following four conditions must be met:

- John must work for the company. This has been met.
- John must own at least 5% of the shares. John owns 100% of the shares so this is met.
- John must have owned the shares for at least two years. John has held the shares since July 2003 so this is met.
- The company must be trading. It is assumed the company is trading.

As all the conditions have been met John will qualify for BADR up to his £1m lifetime limit as he has not previously disposed of business assets before.

Sale of trade and assets

Under a sale of trade and assets this will be the end of an accounting period for the company which is ceasing to trade.

Each asset needs to be considered separately.

Goodwill

Goodwill is a chargeable asset and as this is internally generated the full market value of £700,000 will be a chargeable disposal.

As the company commenced trading in 1996 the goodwill is a capital asset and does not increase trading profits.

Freehold property

This is a chargeable asset.

The chargeable gain is calculated on the difference between the original cost and market value plus indexation allowance calculated as follows:

Proceeds	£700,000		
Less cost	(£450,000)		
Less indexation	(£225,000)	50%	
Chargeable gain	£25,000		

Plant and machinery

On the final period to cessation no annual investment allowance can be claimed.

Instead there will be a balancing allowance/charge calculated based on the proceeds received.

This is calculated as follows:

	Main pool	Special rate pool	Allowance		
TWDV b'fwd	£45,000	£12,500			
Additions - laptop	£6,000				
Disposals - computer equipment	(£3,500)				
Disposals - to third party	(£50,000)				
Balance					
Allowance/charge	(£2,500)	(£12,500)	£10,000		

For the purposes of the calculation the proceeds on sale to the third party have all been allocated to the main pool.

Stock

The stock is sold for market value and therefore an adjustment of £80,000 is required to the final trading period to reflect the stock sold.

Final corporation tax liability

The final corporation tax liability under a sale of trade and assets including the above adjustments is calculated as follows:

Draft profits	£165,250		
Capital allowance adjustment	(£10,000)		
Stock adjustment	£80,000		
Adjusted trading profits	£235,250		
Chargeable gains			
Goodwill	£700,000		
Freehold property	£25,000		
Total taxable profits	£960,250		
Corporation tax at 25%	£240,063	(As profits exceed £250,000)	

Final cash within the company

Following the sale of trade and assets the final cash within the company must be calculated which can then be extracted by John.

This is calculated as follows:

Starting cash within the company	£120,000		
Debtors received	£25,000		
Market value of assets received			
Goodwill	£700,000		
Freehold property	£800,000		
Plant and machinery	£50,000		
Stock	£80,000		
Trade creditors	(£285,063)	(£45,000 + £240,063 corporation tax liability)	
Net cash within the company	£1,489,937		

It is assumed that as the buying party are acquiring the trade creditors they will also acquire the final corporation tax liability thus reducing the amount paid.

Extraction of net cash

Following the sale of the trade and assets John is looking to wind up the company.

One option is a voluntary strike off with Companies House. However as the net assets exceed £25,000 the net cash received would be subject to income tax at the dividend rates for John up to 39.35%.

Alternatively a formal liquidation can be entered into. Whilst there will be liquidator fees this will ensure that the distribution is treated as a capital gain.

Provided John receives the net cash within three years of cessation following the sale of trade and assets he will qualify for BADR as he has held at least 5% of the shares and

traded for two years prior to cessation. This is a material disposal for BADR.

John could also look to issue a pre-liquidation dividend if he has any unused basic rate band remaining as the basic rate dividend is 8.75% which is below the BADR rate of 10%.

The CGT liability and net cash for John on a formal liquidation is calculated as follows:

Proceeds	£1,489,937	(Net cash)	
Base cost	(£175,000)	(Probate value)	
Chargeable gain	£1,314,937		
Less annual exemption	(£3,000)		
Taxable gain	£1,311,937		
CGT at 10%	£100,000	(BADR)	
CGT at 20%	£62,387	(Balance)	
Total CGT due 31 January 2027	£162,387		
Net proceeds received	£1,327,550	(£1,489,937 - £162,387)	

Summary

The net proceeds received under a share sale is £1,490,582 which is greater than the net proceeds of £1,327,550 under a sale of trade and assets.

This is because under a sale of trade and assets there is double taxation within the company and then on the liquidation to the shareholder subject to capital gains tax.

Where as under a share sale there is only the capital gains tax due on the sale of the shares.

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

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

Answer-to-Question- _3_

Requirement 1

Adjusted trading profits for year to 31 March 2023

Submitted trading profits	£69,475	Notes	
Car and fuel expenses - Kay	£1,688	1	
Car and fuel expenses - Ruth	£0	2	
Hotels and subsistence	£0	3	
Evening meals for Kay	(£1,500)	3	
Kay's son salary	£7,500	4	
Capital allowances	£4,275	5	
Adjusted trading profits	£81,438		
Additional trading profits	£11,963	(£81,438 - £69,475)	
Additional income tax at 40%	£4,785	6	
Additional class 4 national insurance at 2%	£239	7	
Total underpaid income tax and class 4 national insurance	£5,024		

Note 1

As the proprietor Kay is only allowed to include the busienss % of her fuel and running costs.

It has been assumed that the travel expenses included were 100% therefore an adjustment of 25% private usage of £1,688 ($£6,750 \times 25\%$) is required.

Note 2

No private usage adjustment is required for Ruth as an employee.

This is because she will be subject to income tax on her private usage through a benefit in kind and P11D.

Note 3

Travel and subsistence costs when visiting client sites are an allowable expense as they are wholly and exclusively for the purposes of the trade provided they are not excessive in relation to the area Kay is visiting.

It has been assumed that these costs are all in reason with average accommodation/meal costs for the area's Kay has stayed when visiting clients.

In addition Kay's costs of £1,500 paid privately for her evening meals when visiting clients for overnight stays is also allowable provided this is reasonable for the area she is staying in.

Note 4

Salary costs to a family member are allowable if they are reasonable costs if a third party were to carry out the same role.

Clearly as Kay's son is five the salary paid of £625 per month is not an allowable expense and the full amount paid in the year of £7,500 ($£625 \times 12$) must be disallowed.

Note 5

Kay's car qualifies for capital allowances under the main pool as the emissions are not more than 50g/km.

However as the proprietor an adjustment for the 25% private usage must be made on the allowances claimed.

Total allowances of £6,300 ($£35,000 \times 18\%$) have been claimed and 25% which is £1,575 must be added back.

The office equipment qualifies for 100% AIA therefore no adjustment is required for this cost.

Ruth's car has emissions of over 50g/km therefore must go into the special rate pool rather than the main rate pool.

Writting down allowances of £4,050 ($£22,500 \times 18\%$) have been claimed however under the special rate pool only allowances of £1,350 ($£22,500 \times 6\%$) are allowed. An adjustment of £2,700 is required.

The total capital allowance adjustment required is £4,275 ($£1,575 + £2,700$).

As Ruth is an employee there is no capital allowance adjustment for her private usage as this will be taxed on Ruth as employment income through a benefit in kind and P11D form.

Note 6

Kay's only income is her self-employed profits.

These were £69,475 which made Kay a higher rate taxpayer.

With adjusted profits of £81,438 as calculated above Kay is still a higher rate taxpayer and is still entitled to her full personal allowance.

The additional trading profit adjustment is therefore subject to income tax at the higher rate of 40%.

Note 7

Additionally Kay is subject to class 4 national insurnace at the higher rate of 2% on her original trade profits.

The additional trade profits calculated are all subject to class 4 national insurance at the higher rate of 2%.

Requirement 2

The original deadline for submitting a 2022/23 tax return was 31 January 2024.

Assuming Kay's return was submitted on time she would have had one year (up to 31 January 2025) to submit an amended tax return with the revised trade profits. Kay is out of time to submit an amended 2022/23 tax return.

Kay therefore needs to submit a disclosure to HMRC notifying them of the error to her sole trade profits and tax return. This should be done as soon as possible to minimise late payment interest and penalties.

Any late payment penalties which HMRC may apply to the incorrect return is calculated based on the potential lost revenue which is £5,024 as calculated above.

There are different categories of penalty that HMRC may charge depending on the type of error. These types are careless (up to 30% of lost revenue), deliberate and not concealed (up to 70% of lost revenue) and deliberate and concealed (up to 100% of lost revenue).

Kay is inexperienced in tax knowledge therefore these errors are likely to be considered as careless and not deliberate.

The maximum penalty HMRC could impose is therefore £1,507 (£5,024 x 30%).

However where there is an unprompted disclosure HMRC could not issue a penalty however this is up to HMRC's discretion. If Kay were to notify HMRC via a disclosure this would be an unprompted disclosure.

Any penalties imposed will need to be paid within 30 days to avoid late payment interest.

HMRC will also charge late payment interest on the lost tax revenue of £5,024 from the original due date of 31 January 2024.

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

Note 1

Under the cash basis only sales where the cash has been received in the year can be included.

Only £48,000 was received in the year for invoices of £55,000 therefore an adjustment of £7,000 is required to reduce sales to the cash receipts.

Note 2

On transition from the accruals basis to the cash basis any debtor/creditor balances at the prior year end must be brought into the tax year under the cash basis.

The £1,125 prepaid costs are included as an expense on day one of the year to 31 March 2025 under the cash basis.

The full insurance cost of £1,600 is also included for the year to 31 December 2025 as the full cost was paid before the year end.

Only £400 of this expense is currently included in the draft accounts therefore an adjustment of £1,200 is required to include the full £1,600 insurance cost paid in the year.

Note 3

Full tax relief for capital expenditure that would qualify for capital allowances under the accruals basis with the exception of cars is available under the cash basis.

The second hand van therefore qualifies for a full deduction which is already included in the accounts therefore no adjustment is required.

Note 4

At 31 March 2024 Farid will have a creditor balance of £4,000 relating to the 10 printed artworks. He has received the full £5,000 but only £1,000 worth of sales were delivered during the year to 31 March 2024 and hence were included under the accruals basis.

Under transition to the cash basis the remaining £4,000 will be included as sales on day one as the cash has already been received.

It has been assumed that this £4,000 is included as part of the £55,000 sales for the year to 31 March 2025.

Note 5

Note 1

All sales relate to the period ended 31 March 2025 therefore no adjustment is required under the accruals basis.

Note 2

All insurance costs included in the period relate to the year ended 31 March 2025 therefore no adjustment is required.

Note 3

Annual Investment Allowance (AIA) is available on the second hand van which qualifies for capital allowances relief at 100% on the total cost.

The full cost has been included therefore no adjustment is required.

Best basis to use

As the taxable profits under the cash basis are significantly lower than the accruals basis due to the timing differences, Fahrid should switch to using the cash basis for 2024/25.

Requirement 2

Income tax and class 4 national insurance contributions

Trading profits	£27,775	(As calculated in requirement 1)		
Less personal allowance	(£12,570)			

Taxable income	£15,205			
Income tax at 20%	£3,041			
Total 2024/25 income tax	£3,041			
Class 4 national insurnace				
Profits up to lower profits limit	£0	(£12,570)		
Class 4 NIC at 6%	£912	(£15,205)		
Total class 4 NIC liability	£912			
Total 2024/25 income tax and class 4 NIC liability	£3,953	(£3,041 + £912)		
Less 2024/25 payments on account	(£6,000)	(£3,000 x 2)		
Total 2024/25 balancing repayment	(£2,047)			
2025/26 1st payment on account - due 31 January 2026	£1,977	(£3,953 / 2)		
Total repayment due	(£70)	(£2,047 - £1,977)		
2025/26 2nd payment on	£1,977	(£3,953 / 2)		

account due 31 July 2026				

As a sole trader Farid is subject to class 4 national insurance.

As his profits exceed the small profits threshold (£6,725) he will receive a deemed class 2 national insurance contribution credit so will not need to make a class 2 payment.

The balancing repayment of £2,047 will be issued once HMRC have processed the 2024/25 tax return.

It has been assumed that this repayment will be net off against the 1st 2025/26 payment on account resulting in a net repayment of £70.

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

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

Answer-to-Question- _5_

Requirement 1

A close company is one controlled by five or fewer participators or any number of directors who are also participators.

A participator is someone who has an share or interest in capital and income of the company normally in the form of shares.

A participator will also include their associates including spouses and children.

In this case Jenny and Max are not associates as they are not married or in a civil partnership. Paul however is an associate of Max as Paul is Max's son.

Control is at least 50% of the company shares, voting rights and access fo distributable profits and assets on a winding up.

The first condition is a company controlled by five or fewer participators.

This is calculated as follows:

Max	1,200		
John	1,000		
Jenny	1,000		
Martha	750		
Fiona	750		
Paul	200	(Associate of Max)	
Total shares	4,900		
% of shares held	49%	(4,900 / 10,000)	

As the total number of shares held by five or fewer participators is 49% this definition of a close company is not met.

The second condition of a close company is controlled by any number of participators who are also directors.

This is calculated as follows:

Max	1,200		
John	1,000		
Martha	750		
Karen	700		
Sarah	650		
Sarah	600		
Paul	200	(Associate of Max)	
Total shares	5,100		
% of shares held	51%	(5,100 / 10,000	

As Phil is not a director his holding is not considered above.

As the total number of shares held by directors and associates is 51% this definition of a close company is met and Frankscape Ltd is a close company.

Requirement 2

Loan to Phil - ongoing implications

Phil is an employee of the company and also a participator owning 5.5% of the company shares.

The company have lent Phil £42,000 at an interest rate of 1%.

There are two implications of the loan to Phil.

As a close company on a loan to a participator there is a s455 temporary tax charge on

loans not repaid within nine months and one day following the year end.

The original loan was made in May 2020 and therefore has not been repaid within the nine month and one day timeframe from 28 February 2021 accounting period.

S455 tax at 33.75% ($£42,000 \times 33.75\% = £14,175$) was paid by the company within nine months and one day following the accounting period.

The second implication is a taxable benefit in kind for Phil.

As Phil is paying loan interest at only 1% (which is below the official 2.25% HMRC rate) a taxable benefit in kind arises on Phil as he has received a cheap loan from the company.

The annual benefit in kind charge is £525 ($£42,000 \times 2.25\% - 1\%$).

This is subject to income tax at the non-savings rates for Phil which is 40% as a higher rate taxpayer. This income tax charge is £210.

The company also will have been completing a P11D form to report the benefit to HMRC.

As the benefit is a cheap loan this cannot be payrolled by the company.

The company will have paid an annual class 1A NIC charge of £72 ($£525 \times 13.8\%$) on the benefit. This cost is tax deductible for the company.

Loan to Phil - waiver of loan

On the waiver of the loan the s455 paid of £14,175 will be repayable to the company.

This will be repayable nine months and one day following the accounting period in which the loan was written off.

As the company have a year end of 28 February it would be beneficial to waive the loan on 28 February 2026 rather than 31 March 2026 as this will accelerate the s455 repayment by one year. The s455 will be repaid on 1 december 2026 if waived on 28 February 2026.

For Phil this waive of the loan will be taxed as a dividend subject to income tax at the dividend rate of 33.75% as a higher rate taxpayer.

As his income is £60,000 the loan waived of £42,000 will partially restrict his personal allowance.

As Phil is employed by the company this loan waived will also be subject to class 1 primary and secondary national insurance contributions at 2% and 13.8% respectively (as Phil already receives a salary of £42,000).

The total class 1 NIC payable would be £6,636 (£42,000 x 15.8%).

To avoid this class 1 NIC charge the company could issue a dividend of £42,000 to Phil which will clear his loan balance. This would still be subject to income tax as noted above.

However the company shares are currently a single class therefore issuing a dividend to Phil would result in equivalent dividends issued to all the other shareholders and it is unlikely the company will have distributable reserves for these dividends.

Alternatively the company could consider creating alphabet shares where each shareholder has a different class of ordinary shares which would enable the company to issue a dividend of £42,000 to Phil without issuing a dividend to the other shareholders.

Loan to Fiona

As the official interest rate is being charged to Fiona on the loan to her no benefit in kind arises.

As a close company temporary s455 tax has been paid on the loan.

The original loan was £100,000 in the year ended 28 February 2024.

Within nine months and one day following the period end (1 December 2024) £40,000 of the loan was repaid.

Ordinarily s455 tax would only be payable on the balance of £60,000.

However, where there has been a repayment of at least £5,000 of a loan that is not subject to an income tax charge and then a further loan issued of at least £5,000 anti-avoidance provisions are met.

Under the anti-avoidance 'bed and breakfasting' provisions where this applies the loan is treated as still relating to the original loan and not a repayment.

For Fiona she repaid £40,000 on 15 November 2024 and was issued with a further £30,000 loan on 6 December 2024 which is within 30 days of the loan repayment. Both amounts also exceed £5,000.

As a result on the net loan repayment of £10,000 (£40,000 - £30,000) will be considered when calculating the s455 tax charge.

The s455 tax charge will be on £90,000 (£100,000 - £10,000) which is £30,375 (at 33.75%). This was due for payment by 1 December 2024.

Any future loan repayment will be based on the £90,000 loan outstanding and s455 tax will be repaid after nine months and one following the tax year in which the loan was repaid.

If there is a partial loan repayment then the s455 repayable is calculated on a partial basis.

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

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

Answer-to-Question- 6

Post cessation income

Steve received £10,000 which was originally written off as a bad debt and expensed in the tax return.

This income is therefore taxable income subject to income tax.

Where post cessation income is received the default position is that this is taxable in the year of receipt and subject to income tax at the non-savings rate and class 4 national insurance.

However where the post cessation income is received within six years following the permanent cessation of trade the trader can elect to treat this income as arising in the final period of trade.

This bad debt was received on 25 January 2025 which is within six years following 5 April 2024 when the trade permanently ceased.

Steve therefore can make the election if he wishes.

For Steve his total income in the final period to cessation was £30,000 and therefore he was a basic rate taxpayer in the 2023/24 tax year.

If Steve were to elect to tax this income in 2023/24 it would be subject to income tax at 20%.

In the tax year of receipt being 2024/25 his only other income is £3,000 of private pension. He therefore has unused basic rate band of £9,570 (£12,570 -£3,000).

It would therefore be beneficial for Steve to not make the election and tax the receipt of £10,000 in 2024/25. This will utilise his remaining basic rate band and only a small amount of the receipt £430 (£10,000 - £9,570) will be subject to income tax at 20%.

Post cessation expenditure

Firstly consideration is required if these post cessation expenditure qualifies for tax relief.

The debt collection fee is allowable under s97(5) ITA 2007 as the debt has now been received and is subject to income tax.

The legal fees are also allowable under s97(3) ITA 2007 as this is in relation to a claim to defend defective work carried out whilst trading.

No tax relief is allowable for the physiotherapy costs as this is not wholly and exclusively in relation to the purposes of the trade and it cannot be proved that this is required as a result of the trade.

The total allowable expenses are therefore £22,000 (£1,000 + £20,000).

Where allowable post trade expenditure has been incurred within seven years following the cessation of the trade this expenditure is allowable for tax relief.

Both these costs were incurred in the 2024/25 tax year which is within seven years following the trade cessation.

These post cessation expenses obtain tax relief by deducting the total against the total net income of the tax year.

When including the debt collection receipt the net income for the year is £430 as calculated above.

The balancing expenses of £21,570 (£22,000 - £430) can obtain tax relief against capital gains arising in the tax year.

During 2024/25 Steve had a capital gain of £4,250 (£15,000 - £10,750).

Despite being entitled to an annual exemption for CGT the post cessation expenditure is deducted before the exemption.

The balancing expenses of £17,320 (£21,570 - £4,250) cannot obtain tax relief and are lost.