


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	343	1782	2068
Section 2	594	2799	3345
Section 3	408	1869	2185
Section 4	384	1785	2134
Section 5	564	2426	3282
Section 6	143	703	833
Total	2436	11364	13847

Answer-to-Question-_1_

Mixed partnership

Profit for the year ended 31 March 2025			61,500
Addbacks:			
Depreciation	(1)	22,000	
Digger	(2)	45,000	
Shed	(2)	1,750	
Employee pension contributions	(4)	500	
Interest paid	(5)	15,000	
Workshop PU	(6)	4,375	
Total disallowables			88,625
LESS:			
Capital allowances	(7)	(11,195)	(11,195)
Tax Adjusted profit 31 March 2025			138,930

	£	Sandstone LTD (20%)	Hashan (40%)	Millie (40%)
Profit 31.03.25	138,930			
interest	(15,000)	15,000		
Remaining to be distributed	123,930	24,786	49,572	49,572
Total share		39,786	49,572	49,572

(1) Depreciation is disallowed as its an accounting adjustment, Amortisation isnt allowable either.

(2) Both the digger and shed have an enduring benefit to the company and is therefore capital. Whilst the shed is on one of the partners property, it is moveable and shouldnt form part of his PPR. There is no suggestion he uses the shed for personal reasons.

(3) Employee bonus have been paid within 9 months of the year end and therefore are allowable.

(4) only allowed relief for employer pension contributions paid within the period.

Assuming they were disallowed for in March 24, we need to take the movement of the accrual and disallow it. Therefore, £2,000-£1,500 = £500

(5) Allocated when calculating profit share

(6) Workshop costs need to be restricted for private use

£43,750 x 10% = £4,375

(7)

		Main	SRP	TOTAL
Bfwd WDA		10,280		
Additions:				
Digger	45,000 (8)	45,000		
Shed	1,750 (8)	1,750		
Bespoke software	15,000(9)		15,000	
		57,030	15,000	
18%		(10,265)		10,265
6%			(900)	900
WDA CFWD		46,765	14,100	
				11,195

(8) Mixed partnership no AIA, WDA only.

(9) Bespoke software has an enduring benefit to the company of more than 2 years therefore needs to be capitalised, also suggests its intellectional property therefore goes in the SRP

Part 2)

Sandstone Ltd

Profits for the year ended 31.12.24		140,000
Greenfingers LLP 31.03.23	$72,000/12 \times 3 =$	18,000
Greenfingers LLP 31.03.24	$39,786/12 \times 9 =$	29,839
Total taxable		187,839

Corporation tax workings:
 $187,839 \times 25\% = 46,959$
LESS: Marginal relief
 $250,000 - 187,839 \times 3/200 = (932)$
Corproation tax due = 46,027

Tax is due 9 months and 1 day after the year end. **1 October 2026.**

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

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

Answer-to-Question- 2

Sales of shares

A sale of shares would mean that the new owners would takeover Joinery Ltd and John would receive cash in exchange for the shares. This would be a chargeable event for CGT purposes for John personally.

Proceeds	(1)	1,730,000	
Less: Cost	(2)	(175,000)	
Gain		1,555,00	
Less: Annual Exemption		(3,000)	
Taxable gain		1,552,000	
BADR	(3)		
1,000,000 @ 10%		100,000	
552,000 @ 20%		110,400	
Total tax due 31.07.27		220,400	

(1)states shares will be sold at Market Value

(2)The base costs of Johns shares are the market value at the date John inherit the shares not the original cost as the share get a uplift on value on death.

(3) John will be able eligible to claim BADR as he meets the following conditions:
- Holds more than 5% in a trading company for more than 2 years
- Is a director

Net proceeds = 1,730,000 - 220,400 = 1,509,600

Sale of trade and Assets

Joinery Ltd will receive £1,730,000 for the sale of the trade and assets. The company will still exist and be owned by John. The cash will be paid to the company as that is who owns the assets. Joinery LTD will then have a chargeable gain which will be chargeable to corporation tax on some of the assets which I will explain below.

profits year ended 31 March 2026				165,250
Stock	(1)	80,000		
Goodwill	(2)	700,000		
Loss on sale of P&M	(3)	10,000		
Less: CAS	(4)	(10,000)		
				945250
Gain	(5)	350,000		
				1,295,250

Taxable profits			1,295,250
		x25%	323,812

No marignal relief as profits over £250k threshold.

- (1) Accounting Adjustment
- (2) Goodwill will be disposed off at the Market value and will be chargeable to CGT
- (3) P&M loss on disposal is an accounting adjustment

(4)		Main	SRP	TOTAL
WDA		45,000	12,500	
Laptops	NO AIA in year of disposal	6,000		
Disposals		(3,500)		
Proceeds		(37,500)	(12,500)	
		10,000	NIL	
Balancing allowance		(10,000)		10,000

No AIA or WDA in year of disposal.

(5) Freehold property

Market Value 800,000
 Cost (450,000)
 Gain 350,000

Now that that everything as been sold and taxed, we need to work out how much cash is left in the company for John to withdraw.

Cash	120,000		
Goodwill	700,000		
Freehold	800,000		
P&M	50,000		
Stock	80,000		
Total cash		1,750,000	
Trade creditors		(45,000)	
Trade debtors		25,000	
Corporation tax		(323,812)	
Total cash to distribute		1,406,188	

As the cash is more than £25k he cannot distribute this voluntarily and will need to pay a liquidator to wind up the company.

By default the distribution will be taxed as capital unless all of the following conditions are met. Then it will be a distributin and taxed as income.

Condition A: The individual has atleast 5% in the company (John does)

Conditon B: is a close company (Joinery LTd has fewer than 5 particiaptors) This is met

Condition C: at anytime within 2 years the same individuals is involved in a same or similar trade (John is retire so this is unlikely. not met)

Conditon D: the main purpose is acheive a tax advantage. This could be argued but theres no obvious signs.

As all the conditions are not met, the distribution will be taxed as capital.

Proceeds		1,406,188	
Cost		(175,000)	
Gain		1,231,188	
AE		(3,000)	
chargeable gain		1,228,188	
1,000,000 @ 10%		100,000	
228,188 @ 20%		45,637	
total		145,637	

(1) BADR, as the distribution is within 3 years of the business being sold, he can claim BADR on the disposal

Net proceeds = 1,406,188 - 145,637 = 1,260,551

it is therefore more benefical for John to sell the shares of the business as it give him greater net proceeds.

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

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

Answer-to-Question- 3

Kays Car

As Kay is a sole trader, she is required to addback any private use. Her private use is 25% therefore costs of £6,750 x 25% = 1,687 should have been addedback

Ruths Car

Ruth is an employee and no private use needs to be added back. However, this is a company car and is therefore a taxable benefit which 13.8% Class 1A NI should be accounted for. This is an allowable expense based on the list price of the vehicle.

List Price		22,500	
Over 75g/km	20%		
1% for every 5	1%		
Total	=	x21%	4,725
Pro-Rota for not available period		4725/12x9	(3,570.75)
Total			1,181.25

Ruth was also provide for all of her fuel and therefore there will also be a fuel benefit as follows:

Fuel benefit		27,800	
		x 21%	5,838
Pro-Rota for not available period		5,838/12*9	(4,378.50)
Total			1,459.50

Total taxable benefit is £1,181.25+,1459.50 = 2,640.75 x 13.8% = 364

Meals and overnight stay included

These costs are tax deductible

Meals and overnight stay not included

These can be included as they are business expenses

Salary to Son

This is not an allowable expense as Kays son is 5.

Capital allowances

The capital allowances have been catrogised incorrectly and Kays car needs to be adjusted for any PU. Therefore the capital allowances should be as follows:

		Main	SRP	Total
Kay		35,000		
Ruth			22,500	
Office Equipment	6,500			
AIA	(6,500)			6,500
		35,000	22,500	
18%		(6,300)		6,300
25% PU				(1,575)
6%			(1,350)	1,350
Total CA's				12,575
Claimed by Kay				(16,850)
Difference overclaimed				4,275

Adjustments

Profit			69,475
Kay PU	1,687		
Class 1A NI	(364)		
CAs	4,275		
Kay personal spent	1,500		
salary to son	7,500		
Revised profit			84,073
Difference			14,598

Kay is a higher rate tax payer and therefore the additional income tax will be at 40% and Class 4 will be at 2% as her profits are already over the £50,270 higher rate threshold.

Additional profits		14,598	
Income tax at 40%	5,839		
Class 4 @ 2%	291		
Total due	6,130		

Part 2

The deadline for submission of the 22/23 tax return is 31.01.24, she has until 31.01.25 to amend and correct this tax return. If this is not done within this timeframe. Kay will need to write to HMRC and

Deliberate 100%
Careless 30%

Will be seen as careless as she isn't a qualified tax advisor.

Can be suspended as first time error as long as pay tax and submit on time and no more errors found by HMRC.

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

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

Answer-to-Question- _4_

Accruals basis

Net Profit			41,725
Second hand van	(2)	11,000	
CAS	(3)	(12,440)	
Taxable profit			40,285

(1) Sales. under accruals basis you are required to Accrue for ALL sales regardless if you have been paid for them

(2) capital expense

(3)

		Main	
		8,000	
VAN	11,000		
AIA	(11,000)		11,000
		8,000	
WDA 18%		(1,440)	1,440
Bfwd		6,560	12,440

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Cash Basis

		£	
Net Profit			41,725
Adjustment to sales	(1)	(11,000)	
Adjustment to insurance	(2)	(75)	
HP	(3)	2,250	
Capital allowances	(4)	(8,000)	
Total adjustments			16,825
taxable profits			24,900

(1) Sales needs to be adjusted for sales which havent been paid during the year as cash basis is taxed on cash paid/received. Therefore we need to remove for the payments not received. $£55,000 - £48,000 = £7,000$

We also need to adjust for the income that was received in the prior year as it was paid for last year but included in this year. we therefore need to remove £4,000

total Adjustment $£7,000 + £4,000 = £11,000$

(2) under cash basis, can only have relief for what has been paid in the year.

We need to remove the prepaid costs paid last year of £1,125 and include the full payment of £1600 rather than just £400.

Already included 1,525
 Should be included 1,600
 Difference 75

(3) Under cash basis you cannot claim claim allowances, you instead claim the the monthly installments actually paid in the period.

We need to remove the full cost of £9,000 claim perviously less 6 months installments and include 12 months installments this year

£9,000
 Less: 375 x 6 = (£2,250)
 Total £6,750

To claim this year = £375 x 12 = 4,500

Total addback is 6,750 - 4,500 = 2,250

(4) Capital allowances. the full £8000 in the pool would be able to be claimed as an expense under cash basis

Farid has a much lower taxable profit under the cash basis and therefore he should use the cash basis for 24/25.

Part 2)

		NSI	
Profit		24,900	
Personal allowance		(12,570)	
TTI		12,330	
x 20%	2,466		
Total income tax	2,466		
Clas 2 NI	179		

Class 4			
12,330 x 6%	739		
Total Tax and NI	3384		
Payments on account	(6,000)		
Repayment	(2,616)		
1st POA 31.01.26	1,692		
2nd POA 31.07.26	1,692		

Depending on when Farid tax return is submitted HMRC may offset his repayment against his first payment on account.

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

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

Answer-to-Question- 5

A company is close if it meets the following conditions:

Condition A:

- 5 or fewer participators OR
- Participators who are directors

Condition B:

- 5 or fewer participators, or participators who are directors, together, possess or are entitled to acquire:
 - such rights in the event of winding up a company

Frankscape LTD have 6 directors and 1 senior manager.

Max	1,200	12%
John	1,000	10%
Martha	750	7.5%
Karen	700	7%
Sarah	650	6.5%
Sarah	600	6%
Phil	55	5.5%

Companies do not need to be considered as its unconnected.

We need to consider if any of these individual can control the company, individually or together as associates.

Jenny and Max are not connected even though they live together.

Max and Phil are connected as they related. Whilst Phil is not a director he attends all the strategic meetings and plays an active role in the key decisions of the company therefore he is considered as a director even though that's not his title.

Max and Phil together have 17.5% . As They together have under 20% of the share capital. Phil is not classed as a participator.

that leaves 6 directors, none of the remaining 6 directors have control individually or together and therefore the company has 5 or fewer participants and is a close company.

Part 2)

Loan to Phil

As Phil is not a director or participant the loan to him will be a taxable benefit and will need to be reported on a P11d by 6th July.

As Frankscape LTD is not charging interest at HMRCs official rates the benefit the benefit in kind will be the difference between HMRCs official rate and the interest charged and Class 1a NI will be due by the company.

The benefit in kind is as follows:

Balanace at the begining of the year	£42,000
Balance at the end of the year	£42,000
	$£84,000/2 = £42,000 \times 2.25\% = 945$
interest charged	$£42,000 \times 1\% = (420)$
Benefit in kind	$= 525$
	$\times 13.8\% = 72$

Phill will also pay income tax on the value of the benefit in kind. As he is a higher rate tax payer, this will be at 40%.

When the loan is waived this will be classed as a dividend in specie and Phil will need to pay income tax on the full amount discharged as employment income.

Fiona

As Fiona is a director, this will be a loan to a director and subject to S.455.

As the company is charging interest to fiona at HMRCs official rates, there will be no benefit in kind.

As the company relent to Fiona with 30days of her repaying the some of the loan and the additional loan is more than £5k. The repayment is matched the later loan under the anti-avoidance provisions to stop bed and breakfasting.

Therefore the outstanding loan is £90,000 and as this has not been paid within 9 months of the year end, S.455 tax at 33.75% will be due on this loan and will need to be paid by the company within 9 months and 1 day of the year end (1st December)

Once the loan as been fully repaid by Fiona, the company can then reclaim any S.455 tax paid. They will be able to do this after the deadline of the tax due in which period that the loan was repaid.

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

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

Answer-to-Question- _6_

Any income and expenses relating to the trade incurred after cessation will be taxable in the year received/incurred and income tax will be charged on these amounts.

Sales recieved will be taxable in full as non-savings income.

Debt collection fees will be an allowance expense against this income

Legal fees paid in relation to a claim will be an allowanble expenses, as had the trade still be trading this would have been allowable.

Physio is not an allowable expense and cannot be claimed. Wouldnt have been deemed wholly, exclusive and neccessary for the trade.

Adjustments

Income		10,000	
Debt collection fees		1,000	
Legal fees		21,000	
Loss		(12,000)	

As Steve has made a loss, he can elect under S.572 to carryback this back and for it to be chargeable asif it arose in 23/24.

However, as the income is relating to debt, no allowable deductions.