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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**822**	**3572**	**4280**
Section 2	**490**	**2001**	**2467**
Section 3	**885**	**3900**	**4759**
Section 4	**468**	**2224**	**2646**
Section 5	**657**	**2922**	**3487**
Section 6	**460**	**2035**	**2432**
Total	**3782**	**16654**	**20071**

Answer-to-Question-_1_

Trading profits for PE 31 March 2026			
PBT	405,400		
Add			
Depreciation	86,600		
Interest payable (N1)	Nil		
Sundry costs (N2)	6,750		
Deduct			
Interest income (N3)	(8,800)		
Profit on sale (N4)	(7,200)		
Trading profits before CA	482,750		

N1

Interest payable - hire purchase agreemenents for P and M is trade related and will be deductible from profits therefore no adjustment is made. The financing of short term working capital is also trade related and deducted from profits so no adjustment is needed.

N2

The charitable donation is a QCD therefore will be added back to the trading profits and deducted from TTP. The amount added back is for 9 months = 9 * 750 = 6,750

N3

Interest income - the interest income is a non trade loan relationship and will therefore be deducted from trading profits and added to TTP.

N4
The profit on disposal of the plough is an accounting adjustment and is therefore added back in the trading profits.

CA for YE 31 December	GP (18%)	SRP(6%)	AIA (100%)			**CA**

2025						
WDV b/f	16,600	Nil				
Additions						
Tractor (N5)			76,000			
Cab pick up (N6)			52,000			
Portable cabin (N7)			62,400			
Total	16,600	Nil	190,400			
WDA at 18%	(2,988)					2,988
WDA at 100%	[redacted]					190,400
Balance c/f	13,612	Nil				
CA						193,388
CA for PE 31 March 2026						
WDV b/f	13,612	Nil				
Additions						
Combine Harvester (N8)	6,500		250,000			
Disposal						
Plough	(5,000)					
Total	15,112		250,000			
WDA at 18%	(2,720)					680 (N9)
WDA at 100%			250,000			250,000
CA						**250,680**

N5

The tractor would fall into the general pool but the company has AIA availabale for the period of £1,250,000 so this is covered by the AIA and receives 100% relief. It also qualifies for FYA 100% but to avoid balancing charges on disposal it is more efficient to use the AIA when available.

N6
The double cab pick up is not classed as a car within legislation/case law as it is not primarily for the transportation of people, it also carries goods. This means it is eligible for AIA.

N7
As the cabin is portable, it can be argued that this is not part of the setting as it is not fixed and has a function relating to the trade. It is therefore treated as plant and AIA is claimed at 100%. HMRC could argue that this is structures and buildings, in which case it would only be available for SBAs at 3% * cost per annum (apportioned for tax year).

N8

The combine harvester does not qualify for FYA 100% as it is second hand. The AIA available for the 3 month period is £250,000, so the remaining 6,500 of cost will be allocated to the general pool.

N9

The WDA for the general pool are apportioned for the three month period (3/12). The disposal of the plough is deducted from the GP as AIA was claimed on this- the lower of cost is deducted and the proceeds of 2,200 will be charged as a chargeable gain in the period ending 31 March 2026 (I forgot to inlcude this in computation below.

TTP	**YE 31 December 2025**	**PE 31 March 2026**	
Adjusted trading profits (N10)	386,200	96,550	
Add			
NTLR (N11)	7,040	1,760	
Deduct			
Charitable donation	(3,750)	(2,250)	
TTP	389,490	96,060	

N10
The trading profits are apportioned for the POA being 15 months - the year to 31 December 2025 is apportioned by trading profits * 12/15 and the period ending 31 March 2026 is apportioned by 3/15 * trading profits.

N11

The NTLR is also apportioned for the POA, as above with the trading profits. (8,800 * 3 or 12/15)

N12

The charitable donation is deductible from the TTP based on the date it was made. Therefore 5 months (3,750) is deductible within the year ended 31 December 2025 and 3 months (2,250) is deductible within the period ended 31 March 2026.

CT liability for YE 31 December 2025

The CT liability for the year is as follows:

CT at 25% = 97,373

As the company has no associated companies and the AP is a year the upper limit is £250,000, meaning the company will pay tax at 25%.

The due date for this tax is nine months and one day from the end of the acocunting period - 1 October 2026. The filing date for the return is the 31 March 2027 - one year from the end of the period of accounts.

CT liability for the PE 31 March 2026

The CT liability for the year is as follows:

CT at 25% - £24,015

As the AP is only 3 months long, the upper limit for this is £62,500. As the company's TTP exceeds this it pays tax at 25%.

The due date for this tax is nine months and one day from the end of the acocunting period - 1 January 2027. The filing date for the return is the 31 March 2027 - one year from the end of the period of accounts.

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

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

Answer-to-Question-_2_

1)

Jet Away Limited is a close company as it is wholly owned by one shareholder - less than 5 participators hold control.
As the company has 170 employees and assets of 12 million, it does not breach the EMI limits of 250 employees and 30 million in assets.
Tom can only hold a maximum of £250,000 of EMI shares amd the company can only grant £3,000,000 of EMI shares.

As it meets all the qualifying conditions for EMI, there will only be an income tax charge for Tom if he exercises his options within ten years and he has been granted the shares at a discount. The option has been granted at £7,000 for 100 shares which is £70 per share. The MV at the time is £150 per share, therefore there will be an income tax charge on the exercising of the options. There is not an income tax charge on the grant of the options. Tom is exercising his options on the sale of the company, which is planned at june 2029, which is within ten years of the grant of option at 1 June 2026 (3 years).

The income tax charge on exercise is as follows:

Proceeds are the lesser of MV at date of option grant which is £150 per share (15,000) or the MV at the date of exercise which is £350 per share (35,000).

Proceeds - 15,000

Less cost - (100)

Income - 14,900

This will be chargeable on Tom in the year of exercise at his notional rate of tax (20% if basic rate taxpayer).

He will also pay capital gains tax when the company's shares are sold in June 2029.

This will be as follows:

Proceeds - 35,000

Less cost - (100)

Less income gain - (14,900)

Capital gain - 20,000

This will be chargeable in the year of disposal at a rate of 18% or 24% depending on Tom's income in the year. He may or may not be able to use his AEA if he has made other gains in the year. BADR would normally not be available on the disposal as he only holds 4% of shareholding in the company, but as he acquired the shares via an EMI scheme, the dispsosal qualifies for BADR and he will be taxed at a rate of 18%, using up his basic rate band first.

Class 1 Primary NICs are due on RCAs. Class 1A NICs will be due on the income gain at a rate of 15%. 14,900 * 15% = £2,235. This will be deductible from the company's trading profits.

2)

The second option is the issue of shares which is essentially a gift of shares. The capital gains implications on disposal of these shares would be:

Proceeds - 35,000
Less cost - 100
Gain - 34,900

Tom can use his AEA of £3,000 against this gain and will pay tax at 18% and 24% depending on his income.

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

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

Answer-to-Question-_3_

1)

Marianne is the sole shareholder in both companies so they are both close companies as less than five participators.

Marianne will be able to claim BADR on some of the disposals below, the conditions for claiming BADR are as follows:

- the shares or asset have been owned for at least two years prior to disposal and they are in a trading company
- Marianne is an employee of the relevant company
- if disposing of shares, she must own at least 5% of the share capital and be entitled to 5% of the distributable profits on winding up.
- a claim for BADR must be done with one year of 31 January following the relavant tax year.

BADR will mean that Marianne pays CGT at 14% and this will use up her basic rate band. She will also be able to allocate her AEA of £3,000 in priority to non-BADR qualifying gains to get relief at 18/24%.

BADR is available on disposal of shares in a trading company. HMRC take into consideration the income, expenses, asset base and hisotry of assets when considering this and generally comply to the rule that as long as these comprise of 20% trading amounts then the company will be classed as trading. It is possible to check this with HMRC prior to making a disposal.

Gift of Silverwood to Aurelia

Marianne will gift all of her shares to Aurelia, her daughter. This will be a disposal for CGT purposes for Marianne. As she is gifting them to her daughter Aurelia, she will receive no consideration for these shares.

A form of relief available is gift relief. This is available as as Marianne is gifting shares in her own personal trading company.
This will remove the gain for Marianne and roll it against the base cost of the shares for her daughter. This is a joint election and must be made within four years of the tax year of the disposal. This would mean her daughter will have a lower base cost of shares,

therefore will have to pay more tax when she disposes of the shares. It is assumed that all of the assets within Silverwood are trading assets and no adjustments need to be made to the gift relief for non chargeable assets.

Gift of 35 shares of Carolwood Ltd to Oakley

The gift of shares to Oakley will a disposal for Marianne but her and Oakley can make a joint election to claim gift relief on this gain to roll it over against the base cost of Oakley's shares. As this is a gift of shares within a personal trading company, there will be a restriction on the gain that can be used as gift relief. This will be limited to the assets that are chargeabble business assets. The gain will be calculated as gain * Chargeable business assets/chargeable assets. This is the amount that will be available to be gift relieved. The remaining amount will be eligible for BADR as Marianne is making a material disposal.

Purchase of 15 shares by Carolwood Ltd

This is the repurchase of shares by a company. As Marianne is an indivudual she doesnt automatically qualify for the capital treatment on purchase of own shares. She will pay income tax on the buyback of £270,000 as if it were a dividend and also a capital gain/loss would be calculated using the subscription price less cost - no capital gain/loss would arise as she is the original subscriber.

She will qualify for the capital treament if the following conditions are met:

-the company is a close trading company (yes)
- the indiviudal is a UK vendor who has held the shares for at least five years (yes)
- the individual will not be connected (30%) to the company after the buy back (she will not be connected as she will hold no shares)
- there has been a substantial reduction in shareholding of 25% (yes as she has disposed of all shares)
- the buyback has been for the good of the trade (yes as HMRC view the retiring of a director who no longer has interest in the business as for the good of the trade)

Therefore she will meet the capital conditions and be liable only to CGT on the proceeds of £270,000 less the original cost of the shares.

Gift of warehouse to Oakley

As Marianne is disposing of 35 shares in Carolwood to Oakley, the disposal of the warehouse will be classed as an assocatiated disposal for BADR pursposes as she has

owned the warehouse for at least three years prior to the disposal and it was used in the trade for at least two years. This will be restricted by the non business use of 25%, so only 75% of the gain on the warehouse will be available for BADR. As the warehouse has been rented at MV to Carolwood Ltd (ie no discount) there will be no further limitations on BADR being available.

2)

BPR is available on shares in a personal trading company at 100% if they have been held for at least three years. The gift by Marianne disrupts this timeframe and the shares will not be eligible for BPR at 100% until Oakley has held them for at least 3 years.

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

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

Answer-to-Question-_4_

Qualifying expenditure

Staff costs

The staff costs that are qualifying expenditure for R and D are salary, pension contributions and Employers NI, to the amount that it relates to the R and D project. Miles does not spend any time directly on the R and D project therefore none of his costs will be qualifying. Elias, Roy, Agnes and James spend 85% of their time on the R and D, therefore their costs will be apportioned as below. The total staff qualifying costs is £80,216.

Name	Salary	Pension	NI
Elias	10,685	5,100	455
Roy	10,685	5,100	455
Agnes	24,650	1,972	Nil
James	19,550	1,564	Nil

Sub contractor costs

The subcontracting to Ravenscroft Ltd is to an unconnected company.The amount undertaken outside of the UK is not allowable. The qualifying amount is 371,524 * 75% = £278,643. 65% of this is allowed as it is an unconnected party - **£181,118.**

The subcontracting to Thornbridge Limited created a new more precise product. Thornbridge Limited could therefore claim R and D relief for this in their own accounts as they have created new technology. On the basis that they do claim this releif, the costs for subcontracting are therefore not allowable as qualifying expenditure.

It costs

The qualifying costs for IT include the software data analysis and the online data subscription as these are directly used for the R and D. The general IT costs are not qualifying as they do not directly relate to the R and D project.

Qualifying IT costs - £16,962

Property costs

The rates and utilities are qualifying costs, apportioned by 85% to disallow the amount of time spent on admin. Rent and repairs are not qualifying costs.

Qualifying property costs - £35,998

Total qualifying costs - £314,294

The company can get enhanced R and D relief if it meets the following conditions:

- the company is SME trading company - the company meets this
- the company is making a trading loss - the company meets this
- the company meets the R and D intensity condition, 30% of its xpenditure is qualifying R and D expenditure (314,294/691,249 = 45%) - the company meets this

This means that the trading loss is increased by 86% of the qualifying expenditure:

314,294 * 86% = 270,293

New trading loss = (525,358) - 270,293

= (795,651)

The company can either choose to carry this loss forward to relieve future total profits, or it can choose to surrender some of the loss for a tax credit.

The surrenderable loss is the lower of:

- the unrelieved trading profits - £795,651
- qualifying expenditure * 186% = 584,586

The company can then surrender £584,586 of its losses to get a tax credit of 14.5% = £84,765. It can carry forward losses of (795,651-584,586) £211,065 to use against future total profits.

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

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

Answer-to-Question-_5_

1)

Taxable profits for YE 31 March 2026			
Payments received (N1)	190,200		
Deduct			
Employee salaries	(27,000)		
Pension contributions (N2)	(2,200)		
Premises costs (N3)	(6,800)		
Travel (N4)	(8,015)		
Legal (N5)	(8,140)		
Accountancy (N6)	(1,420)		
Equipment (N7)	4,800		
Overheads (N8)	(4,500)		
Cost of sales (N9)	(51,200+210)	**(113,865)**	
Add			
Personal service (N9)	1,800		
Trading profits before CA	**78,135**		
CA (N10)	**(546)**		
Trading profits	**77,589**		

N1

As Dee is using the default cash basis, the income used is the payments received. £200 is not related to Dee's trade and is therefore not included in the trading profit calculation as it is a one off unsolicited payment. This will be taxable on Dee in the year as non trading income. Cost of sales is not deductible on the cash basis.

N2

The pension contributions made on 14 April 2026 will not be deductible as they were not paid in the year. The contributions to Dee's personal scheme are also not allowable as she is the sole trader of the business.

N3

The premises costs will be deductible to the degree that they relate to the trade - 50%. Therefore £6,800 is deductible.

N4

The van has had an election placed on it to be treated for flat rate expenses, this cannot be reversed once claimed. The amount deductible will be:

10,000 * 45p = £4,500
3,400 * 25p = £ 850
Total = £5,350

The car did not receive a claim for flat rate allowance and would therefore have had capital allowances claimed. 65% of the car running costs are allowable as they relate to the trade - 65% * 4,100 = £2,665

N5

The legal fees are deductible in full as they relate wholly and exclusively to the purpose of the trade and the defence was successful. It is not capital in nature. Business debt collection also allowable as W and E for trade.

N6

The allowable part of the SA return prep for Dee is the amount that relates to the self employment pages - £180 as this is seen to relate W and E tp the trade. It is assumed the remainder of the accountancy fees are allowable.

N7

As this is the cash basis, plant and machinery used in the trade are deductible from income so the whole amount is deductible.

N8
The training costs are not allowable for Dee's half as these are capital - the new skill will have an ongoing benefit to the business. Disallow £200 (assume was same amount for Dee and employee). The medical costs are not deducitble as they relate to Dee's personal

medical costs and are therefore not meeting the W and E test. The client gifts are disallowed in full as they are food and therefore not allowable. The gift aid donation to BHF is not allowable. This will instead increase Dee's tax bands.

N9

The cost of the business materials is added back to the cost of sales as Dee used it for her own personal use. The service provided to her client is added back at how much it would have cost a customer - £1,800.

N10

14,000 * 6% * 65% = £546
As the car has emissions over 50g/km it is in the special rate pool and gets releif at 6%. Restricted by personal use.

2)

Income tax 25/26	**Non savings income**	**Savings**	**Dividend**
Trading income	77,589		
Rental income	6,000		
Interest		1,100	
Total	**83,589**	**1,100**	
Less PA	(12,570)		
	71,019		
Tax at 20% (37,900 of income)	7,580		
Tax at 40% (33,119 of income)	13,248		
Tax at 0% (500 of savings income)		Nil	
Tax at 40% (600 of savings income)		240	
Income tax			**£21,068**

N11

Basic rate band = 37,700 + 200 = 37,900
Higher rate band = 87,640

The tax bands have been increased by Dee's gift aid donation (grossed up to 200).

Class 4 NICs due

Trading profits - £77,589

50,270-12570 * 6% = 2,262
77,589-50,270 * 2% = 546

Total class 4NICs due = £2,808

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

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

Answer-to-Question-_6_

Statutory redundancy pay

Statutory redundancy pay is exempt from income tax/PAYE on the first £30,000 and then the remainder will be taxed as the top slice of Summer's income and liable to Class 1A NICs on the employer.

Pension scheme contribution

This is exempt from income tax and there are no NICs payable on this amount. No PAYE due.

Outplacement counselling

This is exempt from income tax/PAYEand there are no NICs payable on this amount. However as this was available to only Summer, it will be taxable as earnings and subject to PAYE and class 1 Primary and secondary NICs.

Ex gratia redundancy pay

Ex gratia payments areexempt from income tax for the first £30,000 and then the remainder will be taxed as the top slice of Summer's income and liable to Class 1A NICs on the employer. As Summer had a contractual notice of 3 months, a proportion of this ex gratia payment will be taxable as earnings and subject to income tax and Class 1 primary and secondary NICS. The amount subject to earnings will be:

132,000 * 3/12 = 33,000

This is the PENP. The remaining £16,000 will be exempt or taxable at the top slice of her earnings and have Class 1A NICs due at 15%.

Bonus

The bonus is taxable as earnings and is therefore subject to income tax/PAYE and Class 1 secondary and primary NICs.

Write off of loan

The write off of the loan is treated as benefit in kind and will be taxable as earnings with Class 1A NICs due on this amount of £7,500 at 15%.

Package	**Earnings**	**Exempt**	**First 30K exempt**	**Taxed at top slice**
Bonus	3,500			
SRP			6,000	
Counselling	1,000			
Ex gratia	33,000		16,000	
Pension		4,000		
Loan write off	7,500			

PAYE due on termination package

Salary - 110,000 (132,000*10/12)

Bonus - 3,500

Counselling - 1,000

Ex gratia - 33,000

Loan write off - 7,500

Total earnings - 155,000

There is no PA as income is over £125,140.

IT due at 20% = £7,540
IT due at 40% = 34,976
It due at 45% = 13,437

Total PAYE due - £55,953

Total Class 1 Secondary NICs due

Salary - 110,000 (132,000*10/12)

Bonus - 3,500

Counselling - 1,000

Ex gratia - 33,000

Total earnings - 147,500

147,500- 7,583 * 15% = £20,988

(Reduced by £10,500 if the employment allowances is available)

Class 1 Primary NICs due

Salary - 110,000 (132,000*10/12)

Bonus - 3,500

Counselling - 1,000

Ex gratia - 33,000

Total earnings - 147,500

4,189-1,048 * 10 * 8% = £2,512
11,000 - 4,189 * 10 * 2% = £1,362

4,189-1,048 * 8% = £251
37,500 - 4,189 * 2% = £666

Total Class 1 Primary NICs - £4,791

Class 1A NICS

Loan write off - 7,500 * 15% = £1,125