

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

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Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	458	2150	2569
Section 2	732	3266	3893
Section 3	575	2548	3107
Section 4	505	2144	2598
Section 5	404	1838	2216
Section 6	538	2514	2958
Total	3212	14460	17341

Answer-to-Question- _1_

Part 1

Y/e 31 December 2024

Capital allowances

	£	£	£	£		£
	<u>FYA 100%</u>	<u>AIA</u>	<u>Main</u>	<u>SR</u>	<u>No</u> <u>te</u>	<u>Total</u> <u>CAs</u>
TWDV b/f			287,000	12,000		
Additions						
Production machine	365,000				1	
Strengthening floor	12,000				2	
Lorry		32,000			3	
Packing machine	715,000				4	
AC				25,000	7	
Lift				14,000	8	
Electrical				12,000	9	
Partition					10	
Disposals						
Pressing machine				(32,000)	5	
Boiler			(15,000)		6	
	1,092,000	32,000	272,000	63,000		
FYA 100%	(1,092,000)					1,092,000

AIA 100%		(32,000)			32,000
WDA 18%			(48,960)		48,960
WDA 6%				3,780	3,780
Total CAs					1,176,740

Notes

1. The deposit is paid within y/e 31 Dec 24. As the machine is brought into use in y/e 31 Dec 24 and is a hire purchase agreement, the date of delivery is the date the asset is legally owned. Therefore the full balance is included for y/e 31 Dec 24
2. The cost of altering the premises to allow for P&M is allowable as P&M
3. As the lorry is second hand, the 100% full expensing FYA can not be claimed. Instead the AIA is claimed.
4. The packing machine is qualifying P&M so the 100% FYA (full expensing) has been claimed.
5. As the super deduction of 130% was claimed on the pressing machine, no balancing charge is included in the CA comp on disposal. The proceeds will be included within the trading profits computation.
6. The boiler would have originally been main rate pool expenditure (even if AIA claimed) so the disposal proceeds have been included here.
7. Air conditioning is an integral feature so included in the special rate pool. 50% FYA can not be claimed as acquiring second hand.
8. Lifts are included as integral features so are a special rate pool addition. 50% FYA can not be claimed as acquiring second hand.
9. Electrical systems are also integral features so included in the special rate pool. 50% FYA can not be claimed as acquiring second hand.
10. Partition walls that are moveable are allowable P&M but where they are fixed they are treated as buildings so no CAs available.

Part 2

Structures and Buildings Allowance

As the seller did not provide an allowance statement showing if any previous structures and buildings allowance (SBA) claims had been made, Boxtransfer Ltd will not be able to claim further SBAs.

If an allowance statement is provided, Boxtransfer Ltd can claim SBAs at 3% from 1 August 2024 until the end of the original 33 1/3 period. This will be apportioned to 5/12 for y/e 31 December 2024.

The amount available to claim is the original qualifying costs. As the previous owner had it constructed by a developer, the allowable costs are just the original building cost. The cost of land, planning permission, legal fees, stamp duty etc would not have qualified.

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

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

Answer-to-Question- 2

Part 1

Trading loss for 10m to 31 March 2025

	£	Note		
Loss per accounts	(129,807)			
Add back:				
Lease premium	51,840	1		
Set up costs	28,750	2		
Computer	1,500	3		
Sundry	138	4		
Adjusted profit	(47,579)			
Less CAs (appendix 1)	(24,116)			
Trading loss	(71,965)			

Notes

1. Lease premium =

$$54,000 \times (50-14)/50 = 38,880$$

$$\text{Per year} = 2,592$$

$$10\text{m to Mar 25} = 2,592 \times 10/12 = 2,160$$

$$\text{Disallowable for p/e Mar 25} = 54,000 - 2,160 = 51,840$$

2. These are all capital costs so capital allowances are claimed on them. See appendix 1 below.

3. The computer will be included under capital allowances. See below.

4. The medical benefit will be taxable on the employees as a benefit in kind. Harriet will need to pay Class 1A NICs on this at 13.8% by 6 July 2025.

Loss allocation

	21/22	22/23	23/24	24/25	25/26
	£	£	£	£	£
Trade profit				0	62,000
Salary	182,000	184,000	197,500	46,000	0
s.72	(50,000)	(21,965)			
Adjusted income	132,000	162,035	197,500	46,000	62,000

As Harriet is within her first 4 years of trade, she can utilise early years loss relief (s.72) by carrying back her losses to the 3 preceding years.

Harriet could claim s.64 current year loss relief, but it would waste her personal allowance for 2024/25 and not save her any tax at higher or additional rates.

There is also not as much benefit in carrying the loss forward against future trading profits, as these are expected to be within the higher rate (not additional). Additionally, any losses made within the first 4 years of trade can be carried back, so she may be able to utilise future losses against 2025/26 income.

It is more beneficial to claim relief as soon as possible and against the highest marginal rates of tax.

Harriet's income in previous years was such that she was an additional rate taxpayer and had lost her personal allowance, so she will see the biggest tax savings by offsetting her trading loss against these years.

The s.72 claim must be made by 31 January 2027.

As the loss relief will be against her other income (sideways loss relief) it will be restricted to the higher of £50,000 and her adjusted total income for each year.

For an early years loss relief claim against 2021/22, the restriction will be £50,000 (as higher than £45,500 ie 25% of ANI).

This leaves a balance of £21,965 (see loss memo) which can be offset against other income in 2022/23.

Any tax refunds due for 2021/22 and 2022/23 will be calculated at 21/22 and 22/23 rates

but be payable against her 2024/25 tax liability.

Loss memo

	£		
Loss 24/25	(71,965)		
s.72 against 21/22	50,000		
	(21,965)		
s.72 against 22/23	21,965		
Remaining	0		

Appendix 1

Capital allowances for 10m to 31 Mar 25

	£	£	£		£
	<u>AIA</u>	<u>MP</u>	<u>Computer PU</u> <u>25%</u>	<u>Note</u>	<u>Total CAs</u>
Additions					
Oven	21,000			1	
Dining table		5,750		2	
Software	2,000			3	
Computer			600	4	
AIA 100%	(23,000)				23,000
WDA 18% x 10/12		(862)			862
			(90) x 75%		67
Total CAs					23,929

AIA is restricted for short accounting periods but still well below £1,000,000 limit so no impact.

** WDAs now apportioned to 10/12 months above but incorrect figure (unapportioned) used in main calc **

1. The oven is qualifying P&M so the AIA can be claimed.
2. The AIA can't be claimed on assets acquired from connected parties, so the dining set is included in the main rate pool.

3. The initial purchase of software is capital in nature and is treated as P&M so can claim the AIA.

4. The computer was appropriated to the trade in June 2024 so the market value at that date is included as a capital expense. As it has an element of private use it is included in it's own pool and written down at 18%.

Part 2

Harriet's trading loss in 2024/25 will also result in a loss for Class 4 NIC purposes as she is within her first 4 years of trade.

As Harriet's losses are offset against non trading income, she has not obtained class 4 loss relief from this. Income tax relief and class 4 loss relief are independent of each other.

The class 4 loss (equal to the income tax loss, £71,965, will be carried forward and offset against a future class 4 liability for the same trade, likely in 2025/26.

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

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

Answer-to-Question- 3

2024/25 CGT Liability

The gains before reliefs on the sale of shares and sale of the factory are as below.

The share disposal is in 2024/25 so the CGT due will be payable by 31 January 2026.
Any claims for relief can be made up to 31 January 2027, but it is likely that it would be made at the same time as the CGT is payable.

	Shares (24/25)	Factory (25/26)	
	£	£	
Proceeds	800,000	375,000	
Less cost	(30,000)	(128,000)	
Gain	770,000	247,000	
Less AEA	(3,000)	(3,000)	
Taxable gain	767,000		
10% BADR	76,700		

Business Asset Disposal Relief on sale of shares

Maxine may be able to claim Business Asset Disposal Relief (BADR) on the disposal of shares if the conditions are met.

She has already utilised £165,000 of her £1,000,000 lifetime allowance so has £835,000 remaining. She can also use her annual exemption allowance (AEA) of £3,000 as she has not made any other capital disposals in 2024/25.

The conditions for a sale of shares under BADR are that the company is Maxine's personal service company and has been for 2 years preceding the sale. This is met as she has held a 30% shareholding (so >5%) since 2002. She is entitled to >5% of the shares on a winding up or sale of share capital. She has >5% of voting rights in the company. She has held office as a director of the company for more than 2 years.

The final BADR condition is that the company is a trading company. There are no specific tests for this but HMRC have advised that a holistic approach is required to

ascertain whether a company is trading. The following should be considered:

1. Are the assets of the company held for trading or non trading purposes?
2. Is the income of the company from trading or non trading income?
3. Is the working time of employees spent more on trading or non trading work?

Non trading assets make up 15% of GT Ltd's total asset base. 12% of the total revenue of GT Ltd is from investment income. On the whole, it seems that the company could be viewed as a trading company as their non trading (investment) activity is minimal in comparison to their trading activity.

GT Ltd could apply for clearance from HMRC in advance of the sale to confirm whether the trading requirement is met.

If BADR is claimed, Maxine's eligible gain will be taxable at 10%. If not, as she is a higher rate taxpayer, CGT is due at 20%.

BADR on Associated Disposals

As Maxine is disposing of her whole share capital, she will also be able to claim BADR on any associated disposals. This applies to assets that were held by Maxine personally for 3 years prior to sale and used in the trade for trading purposes for 2 years prior to sale.

The asset must be disposed of within 3 years of the disposal of the shares.

The factory meets these conditions, as it was held by Maxine since 2005, used in the trade since then, and sold in April 2025 (6 months after sale of shares).

However, the rent charged on the factory will reduce the gain eligible for BADR. This is calculated over the life of the asset so the change in rent in 2022 would need to be considered.

The sale of the factory falls within 2025/26 so no gain is chargeable against this in 2024/25.

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

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

Answer-to-Question- _4_

Part 1

Relocation expenses

The first £8,000 of relocation expenses are tax free. The additional £2,000 is a taxable benefit so is liable to Class 1A NICs in normal circumstances.

If this is treated as a normal benefit, the employee would pay Class 1 NICs at 2% and Energy Drinks Ltd (ED Ltd) would pay Class 1A NICs at 13.8% on the £2,000. They would need to report this via a P11D.

If ED Ltd would not like the employee to have to pay tax on this, as may be the case for retention purposes as a new employee, they could operate a PAYE Settlement Agreement (PSA). The employee would not pay any tax or NICs on the benefit but ED Ltd would pay the income tax for him as well as Class 1B NICs at 13.8%. No P11D required.

Staff gifts

The voucher to each employee can be treated as a trivial benefit. This is because it is less than £50, not given in relation to performance, and is not food, drink, or tobacco. There is no limit on how many trivial benefits can be given to each employee each year but there is a limit of £300 for directors. No tax is due on trivial benefits for the employee.

The gift of a dinner set exceeds the trivial benefit maximum so would be better suited to a PSA if ED Ltd do not want the employee to pay tax on it. As the gift is to someone that can not reclaim the VAT (an individual), the VAT inclusive price is used.

Staff events

Annual events are tax free up to £150 per person. However, the Christmas party cost £200 per person so this is now a taxable benefit. The company will not want employees to pay tax on this so a PSA is the best option.

Similarly, the event in August should be included under a PSA.

Registering for a PSA

Energy Drinks Ltd will need to advise HMRC of their intention to set up a PSA by 5 July 2025. Once their application has been approved, the PSA continues to apply for future claims.

The details of the benefits included in the PSA must be reported to HMRC by 5 October 2025. The Class 1B NICs must then be paid to HMRC by 22 October 2025 (19 Oct 25 if not paid electronically)

Part 2

Amount payable to HMRC

	BR	HR	Total		
	£	£	£		
Relocation		2,000			
Dinner set	312				
Christmas party	2,200	1,800			
August event	4,950	4,050			
Total	7,462	7,850			
IT on BR taxpayers (7,462 x 20/80)	1,865				
IT on HR taxpayers (7,850 x 40/60)		5,233			
Grossed up amounts	9,327	13,083			
Class 1B NICs at 13.8%	1,287	1,805			
Total IT due			7,098		
Total NICs			3,092		
Total payable for PSAs (due 22 Oct 25)			10,190		

Corporation tax implications

The Class 1B NICs are a deductible expense for corporation tax purposes. PAYE will

also be deducted.

Staff entertaining is always an allowable expense so this will also be deducted in arriving at TTP.

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

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

Answer-to-Question- 5

Part 1

Lucy's acquisition of share capital in June 2022 does not lead to a change in ownership of the company as she holds less than 50% of the shares at that time.

However, her purchase in June 2024 alongside her husband's purchase does then exceed 50% of the share capital so a change in ownership occurs.

As a result of the change in ownership, any subsequent changes to the nature or conduct or trade or business may be restricted.

These restrictions occur when there is a change in nature or conduct of trade within 3 years prior to change in ownership and 5 years after. It also applies where a trade has become small or negligible and then experiences a revival post change in ownership (at any time). This could be argued as occurring as the profits of Gino's Ltd went from £15,000 to £100,000.

Whether the initial change of menus results in a 'major change' is arguable. There was unlikely to be change in customers as a result, and there was not a significant change in services offered. The change in menu was done for commercial reasons and to increase efficiency so it is unlikely that HMRC would view this as a 'major change'. SP 10/91 specifically allows for withdrawing unprofitable items, which would be the case here.

However, the later conversion to a wine bar is undoubtedly a major change in the nature or conduct of trade. They now have new customers and offer an entirely different service and facility.

As a result, the losses in the company which were incurred pre-change in ownership are blocked and can never be utilised.

The trading losses carried forward of £55,000 are therefore lost, as the change occurred within the 8 year period in which they were incurred.

Part 2

Corporation tax for y/e 31 March 2025

	£		
Trading profits:			
1 Apr 24 - 31 May 24	15,000		
1 Jun 24 - 31 Aug 24	30,000		
1 Sept 24 - 31 Mar 25	100,000		
TTP	145,000		
CT 25%	36,250		
Less marginal relief (250,000-145,000) x 3/200	(1,575)		
CT due	34,675		

The CT payment will be due to be paid by 1 January 2026.

No losses can be carried forward from the date of the change in ownership, so the £55,000 losses are lost.

If the company incurs future trading losses these will be usable against future trading income, assuming there are no further major changes.

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

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

Answer-to-Question- _6_

Part 1

Operating as a limited company will offer the highest after tax pay: £22,823 as a ltd company vs £20,989 as a sole trader, as shown below.

Peter's income tax 25/26 - sole trader

	£	
Trade profit	80,000	
Costs re Ellen (Working 1)	(56,054)	
Adjusted profit	23,946	
Less PA	(12,570)	
Taxable	11,376	
IT 20% on 11,376	2,275	
Class 4 6% on 11,376	682	
Total tax due	2,957	
After tax take home pay (80,000-56,054-2,957)	20,989	

Peter's income tax 25/26 - limited company

	Non savings	Dividends
	£	£
Salary	12,570	
Dividends (CT profit per working 4)		10,626

Less PA	(12,570)	
Taxable	0	10,626
0% on 500		0
8.75% on 10,126		886
Total tax due		886
After tax take home pay ((12,570+10,626)-(886 IT - 0 CT))	22,310	
If claims R&D credit (22,310+513)	22,823	

Working 4 - Limited company CT calculation

	£	
Trade profit	80,000	
Costs re Ellen (working 1)	(56,054)	
Salary for Peter	(12,570)	
Accountancy costs	(750)	
Adjusted profit	10,626	
Add RDEC (working 3)	6,862	
Taxable profit	17,488	
CT 19% on 17,488	3,322	
Less RDEC	(3,322)	
CT due	0	

Working 1 - cost of employing Ellen

	£		
Salary	47,600		
Pension	3,620		
Total	51,220		
Class 1 NIC on salary (47,600-12,570 x 13.8%)	4,834		
Total cost of employment	56,054		

Working 2 - R&D expenditure

	£		
Ellen 50% salary	23,800		
Ellen 50% NICs	2,417		
Ellen 50% pension contributions	1,810		
Peter 50% salary	6,285		
Total RDQE	34,312		

The cost of providing external workers is not qualifying expenditure for R&D here as the workers are not based in the UK.

Working 3 - R&D Expenditure Credit (RDEC)

	£		
Total RDQE (working 2)	34,312		
RDEC 20%	6,862		
Relieved against y/e 31 Mar 26	(3,322)		
Remaining RDEC	3,540		
Credit available	513		
14.5%			

$\text{PAYE cap} = 10/12 \times £20,000 + (3 \times 4,834) = £28,751$

Part 2

The take home pay for Peter is better as a limited company by £1,834 as shown in part 1.

However, operating as a limited company involves significant compliance requirements - filing corporation tax returns, companies house filings, accountancy fees etc.

Without the R&D activity, the decision as to whether or not to set up a limited company would have minimal advantages.

However, the benefits of R&D relief are a key benefit for Peter's circumstances. He can not claim relief for R&D as a sole trader.

As a profit making business doing activities that work to resolve a scientific uncertainty, Peter can claim relief under the merged R&D scheme as shown in part 1. This allows him to deduct 20% of his qualifying R&D expenditure against his corporation tax liability, which will save him £3,322 in 2025/26.

He can also claim the remaining RDEC back as credit if he would like to. This is not compulsory and can instead be left as a relief to be claimed against future liabilities.

If the business starts to become loss making, he could also take advantage of the SME R&D loss relief scheme. This would allow him to increase his loss by including a further 86% of his RDQE as an expense in his CT calculation.

There are compliance requirements for R&D relief - Peter must make a claim notification for y/e Mar 26 at any point between 1 April 2025 and 30 September 2026.