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	**651**	**3035**	**4433**
Section 2	**568**	**2775**	**3831**
Section 3	**659**	**2979**	**4056**
Section 4	**350**	**1683**	**2021**
Section 5	**599**	**2979**	**4239**
Section 6	**366**	**1711**	**2079**
Total	**3193**	**15162**	**20659**

Answer-to-Question-_1_

Trading Profit Calculation:

Loss per Accounts	(189,600)
Add: Depreciation	19,700
Add: Parking Fines	1,900
Add: Car Expenses (6,500 * 40%)	2,600
Add: Car Lease Payments (Private)	6,800
Add: Repairs (prior to use - capital)	7,600
Add: Legal fees on lease (capital)	1,080
Add: Lease Premium	900
Less: Actual Lease premium	(1,440)
Trading Profit before CA:	(150,460)
CA:	(5,422)
Trading Profit	(155,882)

Workings below

Allocation of Profit:

01/04/2023 - 31/12/2023 = 9 Months - Profits = 9/12 * (155,882) = (116,912)

	Total	Akshar	Ben
Profits	(116,912)		
Less: Interest	(6,400)	6,400	
Profits for distribtution	(123,312)		
Profit Ratio		80	20

Allocation of loss		(98,650)	(24,662)

01/01/2024 - 31/03/2024 = 3 Months Profits = 3/12 * (155,882) = (38,971)

	Total	Akshar	Ben	Cora
Profits	(38,971)			
Less: Salary	(45,000)			
	*3/12			11,250
Profits for distribution	(50,221)			
Profit Ratio		50	40	10
Allocation of loss		(25,111)	(20,088)	(5,022)

	Akshar	Ben	Cora
Total (3 months)	(25,111)	(20,088)	6,228
Total (9 months)	(98,650)	(24,662)	
Total	(123,761)	(44,750)	6,228

Each individual will be liable for income tax on their profit share.

Workings:

Car Costs:

100g/km -> 20% + (100 -75)/5 = 25%

Private use = 17,000 * 40% = 6,800

Add Back:

- Depreciation of any kind is added back to the chargeable profits as it is not an allowable deduction for tax purposes.

- Parking Fines not allowable dedcuction
- Repairs completed before moving into the office are capital in nature not income
- The legal fees associated with a new lease should be apportioned between the capital element and the income element
- The income element of the lease is equal to 18,000 * (50 - 10)/50 = 14,400 - Furhter workings below

Capital Allowances:

	GP	SP		
TWDV B/Fwd	6,800	0		
Additions: Office Funriture	23,320			
Total	30,120			
WDA @ 18%	(5,422)			

Lease:

Income costs = 18,000 * 40/50 = 14,440
Spread over ten years = 1,440

Legal Fees on new lease - Allowable up to 5,400 * 40/50 = 4,320
Add back 1,080

Part 2)
The loss available to both Akshar and Ben will calculated on a pro rata basis based on their profit sharing ratios before and after Cora joined the parnership.

Both BEn and Akshar will be able to carry the loss forward and offset against future profits arising from the partnership. The election to use this loss must be made within 12 months after the accounting period to be used.

Akshar will be able to utilise the loss in the current tax year against his other income from rental properties. The due date for this claim is 12 months. This is an all or nothing relief. Such that Akshar will reduce his taxable income to zero, or utilise the full loss available, potentially losing his full personal allowance.

Akshar will not be able to utilise the loss against his chargeable gains in the tax year.

Should Akshar have any remaining loss after a current year claim, he then has the choice to make, as he can make a claim to carry back the losses to the previous 12 months or carry the losses forward. However it should be noted that a urrent year claim must be made before any carry back relief is available.

The due date for this claim is 12 months after the end of the loss making tax year. I.e. as the loss is in 2023/24 a claim must be made by 6th April 2025.

Ben will be to carry back the loss to the previous year to reduce his tax liability for 2022/2023. Ben will be able to use this against his income for 2022/23.

However it should be noted that this is an all or nothing relief and Ben will either reduce his taxable income to zero, or utilise the full loss available.

The deadline for any carry back relief is 12 months after the loss making period and therefore due 6th April 2024.

Any remaining loss will be able to be carried forward.

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

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

Answer-to-Question-_2_

Part 1)

The company is to be wound up 31st MArch 2025, i.e. the 2024/25 tax year.

The winding up of a solvent company will generally result in a capital distribution to the company's shareholders.

Virginia will be disposing of unlisted shares in a trading company as part of the winding up and therefore may be able to benefit from Business Asset Disposal Relief.

There are a number of conditions that must be met, including:
- The individual must be an employee or office holder in the company - as Virginia is the managing director of the company she is an office holder and therefore meets this condition
- The shares must be in a personal company, i.e. the individual must own at least 5% - as Virginia is the sole shareholder this condition is met
- The company must be a treading company or the holding company of a trading group.

The cash reserves have accrued through trading and therefore wont taint the avaiilbilty of BADR/

The individual must have held the shares for two years, as is this case here.

As Virginia has no historic capital disposals she will be able to benefit from BADR up to the life time limit of £1,000,000.

CGT Computation:

MVL Proceeds	300,000	
Less:		
Base Cost	(1)	
Arising Gain:	299,999	
Less: Annual Exempt Allowance		(6,000)
Subject to CGT	293,999	

CGT @ 10% (BADR)	29,400

Part 2)

Should Virginia become involved in FantasyFit Limited she could trigger targeted anti avoidance legislation to prevent phoenixing. The phoenexing legislation was introduced to prevent individuals winding up companiesto withdraw funds under the favourable capital treatment before starting a new company to conduct the same or similar trade.

There are four conditions that must be met for the anti-avoidance legislation to apply.

The individual making the disposal:
- Held shares in a personal company - this includes holding at least 5% of the voting power, rights to distribution and/or rights to capital upon winding up.

If within two years of making the distribution they become a shareholder in a personal company (i.e. hold at least 5% of the issued share capital or have entitlement to 5% of any distributions, voting control or dividend), and the company's in question will trigger the legislation if they conduct the same or similar nature of business. Given that both companies operate in the same industy this condition will be met.

Another conmdition is there is a motive to avoid tax. This is a matter of fact.

Therefore if Virigina was to become a shareholder of the FantasyFit Ltd then she would meet all the conditions for the legislation to apply. Should the legislation apply, instead of a capital distribution on the winding up, the distribution will be subject to the dividend rates of income tax.

As before, the arising gain will be calculated:

MVL Proceeds	300,000
Less:	
Base Cost	(1)
Arising Gain:	299,999

The £299,999 will be taxed as a dividend for Virginia will be calculated as follows:

Dividends	299,999
Total Income	299,999
Less Personal Allowance: (1)	-

Taxable Income:	299,999	
Income Tax @ 0%		
(500 * 0%) - Dividend allowance		0
Income Tax @ 8.75%		
(37,700 * 8.75%)	3,299	
Income Tax @ 33.75%		
(87,440 * 33.75%)	29,511	
Income Tax @ 39.35%		
(174,859 * 39.35%)	68,807	

Total Income Tax = £101,617

Difference = £72,217.

(1)
Total Income = 299,999 -> Therefore Virigia will not be entitled to a personal allowance

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

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

Answer-to-Question-_3_

Part 1)

Company has total profits of around £500k and therefore liable to CT at 25%.

Olena:
Olena sacrifices £5,000 of her salry into her pension scheme. In this isntance, Tson will not be liable for Employers NICs or Class 1A NICs on this value as contributions to pensions are a tax exempt.

As the benefit is taken in the form of salary sacrifice, the company will save Employers NICs on the this amount = £5,000 * 13.8% = £690.

The cost of providing this benefit saves the company £690.

Devon:
Cost to company values:
Company Car (see below) 166
Private fuel

Company Car:
The company will be liable for paying Class 1A NICs on the car benefit calculated as follows:
List Price = 25,600
CO2 = 100g/km -> 20% + (100 - 75)/5 = 25%
BEnefit value = 25,600 * 25% = 6,400

The employee will be taxed on the higher of the salary forefone and the benefit value, in this instance the salary foregone is higher and therefore will be taxed on this basis.

Class 1A NICs = 7,000 * 0.138 = 966

Cost to the company.
Cost of providing benefit 6,200
Class 1A NICs 966
Total 7,166

Less:
Salary Foregone (7,000)
Saving on Salary NICs (966)
Cost of benefit (800)

Private fuel:
Cost to the company.
Cost of providing benefit 1,300
Class 1A NICs 179 (1,300 * 0.138)
Total 1,479
Less:
Salary Foregone (1,000)
Saving on Salary NICs (138) (1,000 * 0.138)
Cost of benefit 341

Parking Space:
The provision of a parking space close to the company's office is exempt for empoyees. The emplpoyee will be taxed on the value of the salary sacrificed rather than the cost of the benefit, even though this value is higher.

There is no employers NICS due on the benefit.

The cost of the benfit is therefore:
Cost 600
Saving on Employers NICS (69)
Salary foregone (500)
Cost of benefit 31

The net annual costs of the benefits can be calculated as follows:
Olena:
Pension Contributions (690)
Devon:
Company Car (800)
Private Fuel 341
Parking Space 31

Total - (1,118)

Part 2)

Company is a small company for the payment of tax, therefore tax is due 9 months and 1 day after the end of the accounting period, i.e. 1st January.

The company is a close company as it is under the control of two individuals and therefore is under the control of five or fewer people.

Mia is a participator in the company as she owns more than 5% of the issued share capital.

Therefore there is potential for the loan to be chargeable to corporation tax. The loan to Mia will be chargeable to corporation tax under S455 if it outstanding at the end of the appropprioate accoutning period.

It is the company that is liable for tax rather than Mia personally.

The loan dated on 6th September 2022 falls within the accoutning period ending 31st March 2023. The outstanding balance of the loan at the end of the accounting period was £40,000.

A s455 charge is calculated based on the lower of the outstanding loan balance on:
- The end of the AP (31/03/2023) = £40,000
- The due date for Tax (01/01/2023) = £30,000

Therefore the company will be liable for an additional £10,125 (30,000 x 33.75%) in corporation tax on 1st January 2024.

Although Mia repaid the loan, there is still an outstanding balance on the loan account, and the bed and breakfasting provisions apply as Mia borrowed further money after repaying the loan.

The loan dated 6th September 2023 will fall within the AP period ending 31st March 2024.

The loan was repaid in full before this date meaning at the end of the AP the outstanding balance on the loan was nil.

The company will recover any S455 tax paid on the loanson 01/01/2025 (the due date for tax for the accoutning period ending 31st March 2024) providing Mia does not take

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

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

Answer-to-Question-_4_

Topolino AP 30/06/2022:
The company submitted this return before the deadline of 30th June 2023, the company also met the deadline to make amendments.

As the company made amendments to its return, the time for HMRC to be able to make a discovery assessment was extended from the initial deadline of 31st May 2024 (i.e. 12 months after the actual filing date) to 31st March 2025.

Topolino AP 30/06/2021:

The due date for Topolino's filing was 12 months after the end of the accounting period. The AP ended 30th June 2021, therefore the return was due 30th June 2022.

The return was submitted 14th February 2023 and is therefore late.

HMRC usually have 12 months from the date of filing to enquire into a return. However given the return was late, the deadline for an eqnuiry is 12 months from the quarter end the return is filed.

Given the return was filed on 14th February 2023, the quarter end is 31st MArch 2023, and therefore the deadline for enquiry into the company's corporation tax return was 31st March 2024.

Therefore the enquiry into the company's tax return for the period ending 30/06/2021 is valid.

Antonio:

There is an argument that Antonio has taken a degree of reasonable care in terms of valuing his business' goodwill. This is because the value of the goodwill has been derived from a professional advisor rather than Antonio personally.

Antonio could have taken further care and obtained a detail report on the valutation of his goodwill.

If the gain is viewed to be understated. The penalty will be based on a percentage of the loss revenue, in this instance thge lost revenue is £70,000.

However, the original disposal may have qualifed for Business Asset Disposal Relief at the reduced rate of 10% depending on Antionio's usage of the lifetime limit. Such that the potential lost revenue may instead be lower.

As Antonio has not made an umprompt disclosure, and the issue for discovery assessment is more than 12 months after the inital return.

The minimum penalty will be: 30%

The maximum penalty will be: 50%

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

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

Answer-to-Question-_5_

Part 1)

Period ending 31st July 2024 - 7 month accounting period.
Total Taxable Profits:

Trading Profit	(296,000)
Add: Inventory Sales	(8,000)
Less: Capital Allowances	58,376
Updated Trading Profit	(245,624)

Total Taxable Profit

Adjusted Trade Profit	(245,624)
Chargeable Gains	217,100
TTP	(28,542)

The trading losses will be utilised in the current year against the arising chargeable gain. The company will lose any relief on the QCD made in period ending 31/07/2024.

As the company is ceasing trading it is possible to carry the loss back for three years. The first 24,884 will be used against the arising profit in y/e 31/12/2023 reducing the taxable profits to nil. Again The company will lose any relief on the QCD made in period.

Any remainiung loss can then be used and offset agsinst trading profits in y/e 31/12/2022.

Total Chargeable Gains for Period Ending 31st July 2024

Factory (see below)	86,000
Machinery (Under Capital allowances)	-
Warehouse (see below)	11,100
Computer Equipment (Under Capital allowances)	-
Inventory	-
Goodwill (see below)	120,000
Total Chargeable Gains	217,100

Chargeable Gain on Factory: No Indexation as Acquired after 31st December 2017

Sale proceeds	236,000
Less: BAse Cost (See below)	(150,000)
Chargeable Gain	86,000

Base Cost Calculation due to Rollover:

Initial Cost:	170,000
Less Rollover Relief:	(20,000)

Updated Base Cost = 150,000

Sale of Factory September 2018:
Proceeds: 220,000
Chargeable gain: 70,000

Proceeds not reinvested = 220,000 - 170,000 = 50,0000
Chargeable Gain on previous disposal = 50,000
Max Rollover Relief = 20,000

Warehouse: No Indexation as Acquired after 31st December 2017

Sale Proceeds	105,995
Less: Base Cost	(98,000)
Gain:	7,995
Add: SBA Claimed	3,105
Chargeable Gain	11,100

SBA Claimed:

AP 31/12/2020	46,000 * 3% * 8/12 = 920
AP 31/12/2021	46,000 * 3% = 1,380
AP 31/12/2022	46,000 * 3% = 1,380
AP 31/12/2023	46,000 * 3% = 1,380
AP 31/07/2024	46,000 * 3% * 7/12 = 805

Total SBA Claimed = 3,105

Goodwill: No Indexation as no base cost

Sale proceeds	120,000
Less: BAse Cost	-
Chargeable Gain	120,000

The disposal of goodwill is the disposal of an IFA.

Capital Allowances:

		GP	Capital Allowances
Tax WDV B/FWd		67,624	
Disposals		(120,000)	
Total		(52,376)	
Balancing Charge		52,376	(52,376)
Super Deduction Balancing Charge		6,000	(6,000)

The balancing charge = 58,376

The disposal value is the lower of proceeds and cost.

Y/E 31st December 2021 - Super Deduction Claimed
Qualifying Assets = Computer Equipment = 6,000
Deduction = 6,000 * 130% = 7,800

SBA:
AP 31/07/2024 46,000 * 3% * 7/12 = 805

There is no balancing charge on SBA

Part 2)

The £46,000 claimed under the SBA onb the warehouse will available to Fargum Limited at a flat rate of 3%. Details of the amounts claimed should be proviuded by Hanfort. Any other value of the warehouse will not be able to claim SBA. Should Fargum sell the asset in the future it will be liable for corporation tax on the increse in value during ownership.

There will be no SBA claim on the factory as the asset has not been purchased new from the developer. As with the warehouse, sould Fargum sell the asset in the future it will be liable for corporation tax on the increse in value during ownership.

Fargum will be able to claim capital allowances on the Factory machinery and compuer equipment, however neither asset will be able to benefit from the enhanced FYA, and utilise the AIA.

The acquisition of goodwill is the acquisition of an IFA for Fargum and special tax rules apply. The company will be able to claim a flat rate of amortisation on the value acquired.

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

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

Answer-to-Question-_6_

Part 1)

	GP	SP	Allowance	CA
TWDV B/Fwd	9,000	900		
Additions:				
Woodworking Machine (1)	12,000			
Van (4)			26,000 (FYA)	
Printer (2)	1,500			
Shelving (3)	1,775			
Disposals				
Van (a)	(5,000)			
Old Equipment	(1,200)			
COmpueter	(250)			
Total	17,825	900	26,000	
WDA @ 18%	(3,208)			3,208
WDA@ 6%		(54)		54
FYA @ 100%			(26,000)	26,000
Carry Forward	14,617	846		

Total CA = 29,262

Notes:
1) Woodworking Machine: Costs incurred in AP = 3,000 -> Under hire pruchase so full cost is allowable
2) Printer acquired at market value from connected person -> general pool
3) Capital allowances available on cost -> value = 1775

(4) Van new and electioc and qualifies for FYA @ 100%

(a) Value of van is the higher of proceeds and TWDV.

Other comments:
Personalised Number Plate does not qualify for Capital allowances.
No cost of furniture acquired therefore cannot claim capital allowances.
No payment has been made on the Wood saw Machine.
Adjustment at market value made for computer equipment

Part 2)

Trading profit before CA: 182,500
Less: CA (29,262)
Trading Profit: 153,238

Loss Remaining for Use = £12,000

Income Tax Computation:

		Non-Savings	Savings	Dividends
Trading Profit		153,238		
Bank Interest			1,215	
Dividend				2,285
Total		153,238	1,215	2,285
Less: Trade loss		(12,000)		
Taxable Income		141,238		
Income Tax @ 20%	(39,428 * 20%) See below	7,886		
Income Tax @ 40%	(87,440 * 40%)	34,976		
Income Tax @ 45%	(14,370 * 45%)	6,467		
Income Tax @ 0%	No Savings Allowance			
Income Tax @ 45%	(1,215 * 45%)	547		
Income TAx @ 0%	Dividends allowance	0		

	(1,000 * 0%)			
Income Tax @ 39.35%	(1,285 * 39.35%)	506		
Total		50,382		

Notes:
Funds arising from NS&I premium bonds is exempt.
Qualifying gift = 1,440
Updated Basic Rate Band = 37,700 + 1,440 * (100/80) = 37,700 + 1,728
= 39,428

Total Income = 156,738 - > Additional rate tax payer and no savings allowance
Therefore Savings Allowance = 0
Personal allowance = 0

National Insurance:
Irfaan was trading as a sole trader for the tear and therefore liable for Class 2 and Class 4 NICs

Class 2: £3.45 * 52 = £179

Class 4: (50,270 - 12,570) * 9% + (153,238 -50,270) * 2%
= 3,393 + 2,059
= 5,452