

The Chartered Tax Adviser Examination

May 2022

Application and Professional Skills

Taxation of Owner-Managed Businesses

Pre-seen information

You may print this copy of the pre-seen information for your exam, however it will be contained in the final Exhibit in each question.

Pre-seen information

Client Names

Anne and Robert Simpson
Simpson Engineering Ltd

Personal Background

Anne was born on 1 May 1958 and Robert was born on 3 February 1955. They married on 7 July 1981.

They have one child, Simon Simpson, who was born on 15 April 1993. Simon is not married and has no children.

Their annual income is as follows:

	<u>Anne</u>	<u>Robert</u>
	£	£
Salary from Simpson Engineering Ltd	30,000	15,000
Dividend from Simpson Engineering Ltd	50,000	50,000
State Retirement Pension	-	9,100

Robert bought the warehouse used rent-free by Simpson Engineering Ltd on 31 October 2016 for £78,000.

Neither Anne nor Robert have used any of their lifetime limit for the purposes of Business Asset Disposal Relief.

The couple have personal pension schemes currently worth approximately £500,000 each. Annual company contributions of £10,000 each have been made into these schemes since 1 May 2001. Neither Anne nor Robert currently draw from their personal pensions.

Anne and Robert Simpson's wills are reciprocal in nature, leaving all assets to the surviving spouse, and then to Simon.

Company Background

The company was incorporated on 3 January 1948 by Reginald Simpson, Robert's father, who subscribed for 1,000 fully paid-up ordinary £1 shares. The company has always manufactured equipment for the joinery industry.

Reginald died on 3 June 1985, leaving all of his shares to Robert. The probate value of the shares at that time was £20,000. Robert was appointed a director of the company on 28 June 1985.

Robert gave 500 of his ordinary £1 shares to Anne on 28 June 1985 when she also became a director.

Robert moved from working full-time for the company to working part-time on 2 February 2016 so that he could spend more time renovating and maintaining the couple's house and gardens. He remained a company director and retained ownership of 500 ordinary £1 shares.

Simon has worked for the company as its production manager since 1 June 2011.

The company operates from freehold premises which it owns and also a warehouse owned personally by Robert Simpson. No rent is charged for the company's use of Robert's warehouse.

The company's accounts are made up to 30 September each year.

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Company Tax Information

The Corporation Tax Return for the year ended 30 September 2021 shows:

	£
Trading income	118,701
Property income	8,000
Interest from non-trading loan relationships	<u>148</u>
Total profits	<u>126,849</u>
Corporation Tax at 19%	<u>24,101</u>

Simpson Engineering Ltd has a capital loss brought forward of £24,500 following the disposal of some dilapidated storage facilities on 25 January 2017.

Simpson Engineering Ltd has been VAT registered since 1 April 1973. All of its supplies are standard rated.

Accounts for Simpson Engineering LtdProfit and Loss Account

	<u>30/09/2021</u>	<u>30/09/2020</u>
	£	£
Turnover	1,320,853	1,282,290
Cost of sales	<u>(805,060)</u>	<u>(774,540)</u>
Gross profit	515,793	507,750
Administrative expenses	<u>(396,848)</u>	<u>(401,800)</u>
Operating profit	118,945	105,950
Income from other fixed asset investments	13,000	13,000
Other interest receivable	<u>148</u>	<u>188</u>
Profit before taxation	132,093	119,138
Tax on profit	<u>(24,101)</u>	<u>(21,980)</u>
Profit after taxation	<u>107,992</u>	<u>97,158</u>

Balance Sheet

	<u>30/09/2021</u>		<u>30/09/2020</u>	
	£	£	£	£
<u>Fixed Assets</u>				
Tangible assets		141,505		129,572
Investments		<u>120,000</u>		<u>120,000</u>
		261,505		249,572
<u>Current Assets</u>				
Stock	20,527		19,035	
Debtors	36,431		45,724	
Cash at Bank and in hand	<u>113,507</u>		<u>114,756</u>	
	170,465		179,515	
<u>Creditors: Amounts falling due within one year</u>	(31,970)		(37,079)	
<u>Net current assets</u>		<u>138,495</u>		<u>142,436</u>
<u>Total assets less current liabilities</u>		<u>400,000</u>		<u>392,008</u>
<u>Capital and Reserves</u>				
Called up Share Capital		1,000		1,000
Profit and Loss Account		<u>399,000</u>		<u>391,008</u>
		<u>400,000</u>		<u>392,008</u>