(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

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Chartered Institute of Taxation

Excellence in Taxation

☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advisory Paper you have attempted (if not already ticked below)

✓	Taxation of Owner-Managed Businesses		Taxation of Individuals
	VAT on UK Domestic Transactions, IPT & SDLT		VAT on Cross-Border Transactions & Customs Duties
	Inheritance Tax, Trusts & Estates		Taxation of Major Corporates
	Human Capital Taxes		

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advisory

You must ensure that the Advisory Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

- For those candidates on the Indirect Tax Route you must sit the VAT on UK Domestic Transactions, IPT & SDLT Advisory Paper.
- For those candidates on the Indirect Tax Route you must sit the VAT on Cross-Border Transactions & Customs Duties Advisory Paper.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

For use by examiner only

1		**6**	
2		**7**	
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4		**9**	
5		**10**	

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QUESTION NUMBER | 1

When John retires from the partnership this will be a cessation of trade for him. He will be taxed on any profits not yet charged to tax less overlap relief.

He will also be deemed to sell his share of partnership assets to the partnership apart from the building.

The building is to be retained by John, therefore a capital gain will arise for Becky and Aiden while John's gain is notional and will be rolled over into his base cost as he is acquiring 2/3's of the asset.

When the goodwill was revalued in the Accounts, this is not a chargeable event. A chargeable event occurs when there has been a change in profit sharing ratios (PSR) following a revaluation.

The partners are then assessed based on the % share they have increased or decreased.

FOR EXAMINER USE ONLY

QUESTION NUMBER | 1

~~Goodwill~~

Profit sharing Ratios

	Becky	Aiden	John
before	25	25	50
after	50	50	–
change	+25%	+25%	-50%

Goodwill	£
Proceeds	100,000
Cost	(65,000)
Gain	35,000

	~~Becky~~	Becky	~~Aiden~~	Aiden.	John
% × proceeds.	~~25,000~~	25k.	~~25,000~~	25k	50,000
% × orig cost	~~(16,250)~~	(16,250)		(16,250)	(32,500)
Gain.					17,500.
notional gain		8,750		8,750	

Base cost of goodwill c/f

	Becky	Aiden.
~~Base co~~ MV	50,000	50,000
less notional gain	(8,750)	(8,750)
	41,250	41,250

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QUESTION NUMBER | 1

Land & Buildings

	Total	Becky	Aiden	John
Proceeds - mv	500,000	125,000	125,000	250,000
Cost	(260,000)	(65,000)	(65,000)	(130,000)
Gain	240,000	60,000	60,000	
notional gain				120,000.

Revised base cost for John.

	£
market value	500,000
less notional gain	(120,000)
	380,000

Investments.

	Total	Becky	Aiden	John.
Proceeds - mv	130,000	32,500	32,500	65,000
Cost	(150,000)	(37,500)	(37,500)	(75,000)
Loss	(20,000)			
notional loss		(5,000)	(5,000)	(10,000)

Base cost	Becky	Aiden.
mv	32,500	32,500
add notional loss	5,000	5,000

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QUESTION NUMBER	1

Base cost cont

	Becky	Aiden
Total	37,500	37,500

Becky and Aiden have a notional loss that increases their base cost, as they didn't actually make a disposal, they cannot use the loss.

CGT Becky

	NON-ER	
Building	60,000	
~~A.E~~ Cap loss b/f	(7,500)	
A.E	(11,500)	→ ERROR (A.E should be £11,300)
chargeable gain	41,000	
CGT @ 20%	8,200	

Becky is not entitled to Entrepreneurs Relief (ER) as disposal of a business asset is not a material disposal.

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QUESTION NUMBER | 1

CGT Aiden

	£
Building	60,000
Rollover relief (see below) (£60k - £25k)	(35,000)
gain	25,000
A.E	(11,500)
Chargeable gain	13,500
CGT @ 20%	2,700

ERR A.E should be 11,300

Rollover relief available where proceeds are fully reinvested into qualifying business asset i.e land & buildings.

	£
Proceeds	125,000
Re-invested	(100,000)
remains chargeable	25,000

Reinvestment was less than 12m prior to sale. Window for rollover 12m before, 3 yrs after.

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QUESTION NUMBER 1

John CGT

	~~ER~~ £	~~NON ER~~
~~Goodwill~~	~~17,500~~	
~~Loss on investments~~	~~(10,000)~~	
~~Gain~~		

	£	
Proceeds - on capacc	125,000	
Goodwill	17,500	
Loss on invest.	(10,000)	
Gain	345,000	
A.E	(11,500)	ERR A.E should be £11,300.
Chargeable	333,500	
CGT @ 10%.	33,350	

John will be eligible to claim ER as part of his withdrawal from the business. Disposing of qualifying trading business held for at least 1yr.

FOR EXAMINER USE ONLY

QUESTION NUMBER 1

(2) From an IHT pespective, business property owned for 2 years qualifies for 100% BPR relief.

John is disposing of his share in the partnership therefore increasing his exposure to IHT unless he re-invests in other qualify BPR within 2 years.

Retention of the property will ~~be~~ give him BPR at 50% as property used in a trade.

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QUESTION NUMBER 2.

memo.

To: Mr & Mrs Edwards
From: Tax Adviser
Date: 1 May 2018
Subject: Transfer of Trade.

The transfer of trade between two companies that are at least 75% under common ownership ~~are~~ is referred to as a succession.

As you and your husband both own 50% of Warrington Wholesalers Ltd and Quik-Stores Ltd, a succession will occur when the trade and assets are transferred.

Generally the transfer of a trade will mean cessation in the former company, resulting in no capital allowances and terminal loss relief available.

When a succession occurs, the trade is not deemed to cease and therefore capital allowances can

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still be claimed. Terminal loss relief is not available, instead losses transfer with the trade (subject to restrictions below) and plant & machinery automatically transfers at it's tax written down value (twdv).

The restriction on losses is that all trade loss to be transferred apart from losses that can be used by the former company. If the former company is insolvent, losses will remain to bring the company solvent.

Land & Buildings

As the transfer is between connected parties the l&b will transfer at market value giving a gain in Quik Stores as follows.

	£
Proceeds - mv	300,000
Less cost	(200,000)
Unindexed gain	100,000
Indexation	(50,000)
Indexed gain	50,000

Quik-stores have capital losses b/f of £60k which it

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can offset against this gain. The remaining capital loss of £10K will be wasted as capital losses can not transfer with the trade.

Plant & machinery

The P&M transfers at TWDV therefore no profit or loss. However, Quik Stores can claim WDA on their pools before the transfer takes place. The tax written value at 30 June 2018 is £45K so assume WDA ~~capital allces~~ has been claimed.

~~AIA~~ ~~Pool~~

~~TWDV b/f~~

Warrington Wholesalers will acquire the P&M at £45K. They cannot claim AIA as they are connected parties but will be able to allocate to main pool & claim WDA.

Stock

Transfer of stock between connected parties always takes place at market value. This would leave a profit in Quik-stores as follows:

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QUESTION NUMBER 2

	£
market value = proceeds	40,000
cost	(25,000)
Taxable profit	15,000

A joint election can be made to transfer the stock at the higher of cost or actual consideration paid.

If the profit is left in the company it can be offset against the losses and Warrington will have a higher stock cost in their accounts, therefore less profit on sale.

Position of Quik-stores

	£
Debtors	20,000
Bank o/draft	(40,000)
Other creditors	(365,000)
Proceeds - building	300,000
Profit on sale of stock	15,000
	(70,000)

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QUESTION NUMBER 2

As Quik stores will be insolvent ~~of~~ by £70,000, this is the amount of trade loss that must remain in the company.

Losses to Warrington

The remaining loss of £5,000 can be transferred to Warrington Wholesaless but can only be used against future trade profits of the same trade.

Therefore the trading income & expenditure relating to Quik-stores must be kept seperate from income & expenses of Warrington to establish true position.

Future of Quik Stores.

If Quik Stores is converted & re-commences trade, this will signify a new accounting period. HMRC will need to be notified within 4 months.

Please note, the losses remaining in Quik Stores can only be used against future profits of the same trade so if you change the nature of the

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QUESTION NUMBER 2

business, as intented, you will be unable to use these losses.

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memo.

To: Joe Mills (Tax Partner)
From: Tax Adviser.
Date: 1 May 2018
Subject: Prospect Developments Ltd.

Steve Bishop of Prospect Developments would like for a buyback of shares to take place due to his ill health. He would like this to be a capital distribution.

CTA 2010 S1033 states that for a purchase of own shares to take place, one of the following conditions must be met:

Condition A

The purchase is wholly/mainly for the purpose of ~~the trade~~ benefiting the trade. Is not part of a tax avoidance scheme and is not enabling the owner to participate in the profits of the company without receiving a dividend.

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Condition B

The whole or substantially the whole of the payment is to discharge an IHT liability within 2 years of death.

The seller must be UK resident in the year of the buyback and must have held the shares for 5 years.

Mr Bishop is UK resident and held his shares for over 5 years.

Reduction of Interest.

The seller must substantially reduce his interest in the company (CTA 2010 S1037). His holding after the buyback must not be more than 75% of his holding prior to the buyback.

The combined interests of associates are taken into consideration. CTA 2010 S1059 defines an associated person for this purpose as a husband/wife or civil partner or a young person (under 18).

FOR EXAMINER USE ONLY

QUESTION NUMBER 3

Therefore the combined interest of Steve & his wife are taken into consideration. His children are born in their twenties so are not counted as associates.

Entitlement to Profits.

The sellers entitlement to profits must also be reduced by a significant amount. The % share of profits after the buyback must be less than 75% of % share prior to buyback.

Connection.

After the buy back, the seller must not be connected with the company. He must not own (directly or indirectly) more than 30% of the ordinary share capital, loan capital or voting power. (CTA 2010 s1062)

Combined interests of associates i.e. his wife are also taken into account.

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QUESTION NUMBER 3

Option 1:- Company to buyback shares in two stages.

If the company buys back the shares in two stages, stage 1 of the 1st half of the shares will not qualify for capital treatment.

Combined interest before buyback

Steve	45
Laura (wife)	15.
	55 of 100 shares = 55%

Combined interest after buyback

Steve	22.5
Laura	15
	37.5 out of 77.5 = 48%

Their combined shareholding would need to be below 41.25% to qualify.

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It is also unlikely that HMRC will view the buyback to be for the purpose of the trade as Steve will remain as a company director.

~~On the secon~~ The first buy back will be treated as an income distribution, as follows

	£
Proceeds	250,000
less cost	22.50
	249,977.50
IT @ 38.1% (worst case)	95,241.

The second buyback could qualify as shareholding will be substantially reduced and he won't be connected to the company. However, the company must be able to afford the buyback.

The investment property would need to be sold prior to ensure funds available.

Entrepreneurs relief applies so Steve would have a capital gain as follows:

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QUESTION NUMBER 3

	£
Proceeds	250,000
less cost	22.50
Gain	249,977.50
A.E	(11,300)
taxable gain	238,677.50 ~~238,677~~
CGT @ 10%	23,867.75

Alternatively, Steve could delay the share buyback until the company has the required funds and retire at the time of the buyback.

The whole distribution can then qualify as a capital distribution and pay tax at 10%.

Loan

If a loan to a participator is written off, this is chargeable earnings for NIC and regarded as a dividend.

Steve would pay class 1 NIC & the company. The loan would also be taxed at dividend rates.

FOR EXAMINER USE ONLY

QUESTION NUMBER	5.

14m period to 30 June 2017	£
Loss per Accounts	(4,100)
add back:	
depreciation (N1)	1,000
legal fees (N2)	3,500
Staff party (N3)	–
sale of goods - own use (N4)	1,600
client entertaing (N5)	500
salaries & redundancy (N6)	–
Profit before tax & capital all'ces	2,500
Capital all'ces (W1)	3,000
Profit before tax	5,500.
+ sale of stock (11,000-9,000)	3,000.
	8,000.

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QUESTION NUMBER 5.

N1) Depreciation is specifically disallowed (ITTOIA 2005 s33)

(N2) Legal fees in relation to purchase/sale of property are capital (ITTOIA 05 s33) so specifically disallowed.

(N3) Staff entertaining is an allowable expense~~s~~. Allegra attending the event is inconsequential if with all employees.

(N4) Goods taken for own use should be added back to profits at market value (ITTOIA 05 S172B)

(N5) client entertaining is not an allowable deduction as not W&N for purpose of trade. (ITTOIA 05 S45)

(N6) On cessation of trade redundancy payments are capped at 3x staty redundancy. Appears only staty redundancy paid so all all'ble

FOR EXAMINER USE ONLY

QUESTION NUMBER | 5.

(W1) Capital all'ces.

	Pool	PU Asset	CA claim
TWDV b/f	2,000	—	
disposal - van	~~(2,500)~~	(2,500)	
- p&m	(3,000)		
	(1,000)	(2,500)	
Balancing charge	1,000		(1,000)
Bal chg - 25% PU		2,500	(2,000)
			(3,000)

NO AIA / WDA in period of cessation.

Bal adjustments apply on disposal of assets.

Bal chg on van ∵ restricted for personal use.

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QUESTION NUMBER 5.

commencement of trade 1-3-13 ~~13/14~~ 12/13

12/13
~~13/14~~ opening yr rules £

1-3-13 to 5-4-13

£14,000 x 1/14 1,000

13/14
~~14/15~~ is there a y/e - yes > 12m.

1-5-13 30-4-14
~~1-3-13~~ to ~~28-2-14~~

£14,000 x 12/14 12,000

~~15/16 CYB~~. ollap 11m

~~y/e 30-4-15~~. £14,000 x 11/14 = 11,000

14/15 CYB.

y/e 30-14-15

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QUESTION NUMBER	5.

Commence trade 1/3/13 12/13.

12/13 op yr rules £

1/3/13 to 5/4/13

£14,000 x 1/14 1,000

13/14 y/e ✗ tax yr basis

6/4/13 to 5/4/14

£14,000 x 12/14 12,000

14/15 y/e ✓ > 12m

1/5/13 to 30/4/14

£14,000 x 12/14 12,000

[o/lap created (11m) £14,000 x 11/14 11,000]

15/16 CYB y/e 30-4-15 30,000

16/17 CYB y/e 30-4-16 32,000

17/18 cessation - profit not yet taxed less o/lap

14m to 30-6-17 8,000

less o/lap (above) (11,000) ~~£3,000~~ NIL

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QUESTION NUMBER 5

loss memo

	£
trade loss 17/18	3,000.

Can carry back this loss to 16/17 and claim repayment of tax, or offset this year against other income.

Income Tax

	NSI
Salary	130,000
Trade profit	NIL
	130,000
P.A - reduced to nil (>100k).	
~~Taxable income~~	
loss relief	(3,000)
Taxable	127,000

	£
£33,500 x 20%	6,700
£93,500 x 40%	37,400
	44,100

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QUESTION NUMBER	5.

CGT

	£	
Goodwill		
Proceeds	10,000	
Cost	(30,000)	
loss	(20,000)	
Premises	£	
Proceeds	413,500	
Cost	(260,000)	
	153,500	
	ER	NON-ER
Shares		7,600
~~G/will~~	~~(20,000)~~	
Premises	153,500	
loss on g/will	(12,400)	(7,600)
gains	141,100	—
A.E	(11,300)	
	129,800	
CGT @ 10%	12,980.	

(Cessation of business + associated disposal > 1yr to cessation)

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QUESTION NUMBER 4

	FYA	AIA	POOL	SR
TWDV b/f			250,000	200,000
addns - lift installation (W2)			~~40,000~~	40,000
- central heating (W3)			–	
- floodlights (W4)				

~~disposals~~

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QUESTION NUMBER 4

(W1) Disposal of fixtures with Red Sile:

- Heating - integral feature - special rate pool (CAA 01 S33A)
- Elec system - " (as above) " "
built in cupboards - become part of the building - non-qual (CAA 01 S21)
- security alarm - main pool (CAA 2001 S23) List C - P&M.
- lift & installation - ~~building~~ integral feature (CAA 01 S 33A) special rate.
- Sprinkler - fire safety system = ~~Building (non-qual)~~ (List C P&M) (CAA 01 S23)
- Sanitary ware - become part of building - non qual.

Int Feat.	(non-qual.) Building	Main Pool
30,000 (heating)	20,000 (storage)	15,000 (alarm)
25,000 (elec)		30,000 (sprinkler)
100,000 (lift)		15,000 (toilets).
155,000	20,000	60,000

(W2) Lift installation further expenditure pooled. £40,000 will be an integral feature. Cannot claim AIA as wasn't expenditure in this period

(W3) Central heating system becomes part of the building (S21) therefore non-qual. asset.

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QUESTION NUMBER 4

(W4) Floodlights & supports - qual P&M. Main Pool.

(W5) Thermal insulation → all'ble expenditure special rate.

(W6) Fire doors - List C - P&M

(W7) Fire Exting - P&M, enduring benefit.

(W8) Hoist - List C - P&M.

(W9) Alterations to buil = non-qual.

(W10) Fixed platform, becomes part of building

(W11) Air con is an integral feature (s33A).
as obligation to pay = delivery but not
required to pay > 4m.

only recognise amounts pd -	1/10/17	15,000
	1/11/17	7,500
	1/12/17	7,500
		30,000

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QUESTION NUMBER 4

	Disposals	Int Feat	Main	Non-qual
(w12)				
	Heating (w1)	(30,000)		
	Elec system (w1)	(25,000)		
	Storage (w1)			(20,000)
	Security alarm (w1)		(15,000)	
	Lift (w1)	(100,000)		
	Sprinkler (w1)		(30,000)	
	Toilets (w1)		(15,000)	
		155,000	60,000	

	Additions	Int	Main	non-qual
(w13)				
	Central heating (w3)			35,000
	Floodlights (w4)		12,000	
	Thermal insul (w5)	25,000		
	Fire Doors (w6)		10,000	
	Extinguishers (w7)		8,000	
	Hoist (w8)		50,000	
	Build alter. (w9)			5,000
	Fixed Platform (w10)			27,000
	Air con (w11)	~~90,000~~ 30,000		
		55,000	80,000	

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QUESTION NUMBER	4

	AIA	Pool	SR	Claim.
TWDV b/f		250,000	200,000	
addns (W3)	~~55,000~~	80,000	55,000	
= on lift			40,000	
disposals (W2)		(60,000)	(155,000)	
		270,000	140,000	
AIA		(145,000)	(55,000)	200,000
WDA- 18%		(22,500)		22,500
WDA- 8%			(6,800)	6800
TWDV c/f		102,500	78,200	229,300

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QUESTION NUMBER 6.

BRIEFING NOTE

To: Tax Ptr

From: Tax Adv.

Date: 1 May 2018

Subject: Benefits.

The cash equivalent of benefits provided to employees such be reported on P11D's by 6 July 2018 unless the benefit has been payrolled.

Class 1A NIC is due on benefits at 13.8% which should be paid to HMRC by 19 July (22 July if elec).

Mobile Phones.

The provision of one mobile phone per employee is a non-taxable benefit. no reporting req'ts.

If more than mobile phone is provided, i.e for a spouse. It is by virtue of husband's employment & taxed on him. Reported via P11D. Class 1A NIC payable. Benefit is cost to employer

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QUESTION NUMBER | 6

Private Medical

Private medical is a taxable benefit. Cash equivalent is cost to employer.

If company contracts & pays liability, then taxable for employee, report on P11D and class 1A NIC due.

If company pays employee liability i.e employee arranges this is taxable class 1 earnings through PAYE. No P11D req'd.

If the company reimburses an employee this should be reported via P11D. and class 1A NIC paid.

Company Car.

Company cars are taxed according to their list price multiplied by a fixed percentage depending on the CO^2 emissions of the car.

Can be pro rated if car not provided for whole yr or if not avai more than 30 consequetive days.

FOR EXAMINER USE ONLY

QUESTION NUMBER 6.

Contributions towards ~~cost~~ ~~of~~ private use of the car can reduce the benefit.

Regardless of whether co has a cost after contribution, ee's must still be taxed as above which is likely to leave a taxable benefit.

Report on P11D. Class 1A NIC due.

Mileage.

Mileage can be paid for genuine business travel of up to 45p per mile upto 10,000 miles & 25p thereafter. ITEPA 03 S229.

Paying 20p is under this so no reporting requirements ~~of~~ or ~~class~~ NIC.

EE can make a claim for tax relief upto approved mileage amounts.

FOR EXAMINER USE ONLY

QUESTION NUMBER 6

Loans

Loans of less than £10,000 per annum are not taxable benefits provided total loans to employee does not exceed this. No reporting requirements or NIC.

Loan to Finance Director will be a taxable benefit. Will be assessed according to cash equivalent based on loan outstanding in the year multiplied by official rate of interest.

Non-cash voucher.

When a PSA agreement in place, the company pays the tax & class 1 NIC that would have been payable along with employers NIC.

If employees are basic rate payers the voucher amount is multiplied by 20/80 to find the tax & if higher rate 40/60.

Class 1B NIC is payable on a PSA agreement.

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QUESTION NUMBER 6

PSA agreement needs to ~~£~~ be filed with HMRC by 6 July.

Trivial Benefits

Trivial Benefits can be made to staff provided they do not cost more than £50. ITEPA 03 s323A

~~The~~ flowers < £50 so no taxable benefit, no reporting requirements.

The wine @ £100 each is more than £50 so becomes a benefit. Class 1A payable & P11D reporting.

~~Acc~~ Payrolling

Any benefits that are payrolled do not need to be included on a P11D.

Benefits that cannot be payrolled are loan benefits and accomodation benefits.

FOR EXAMINER USE ONLY

QUESTION NUMBER | 6.

Salary Sacrifice.

There are anti avoidance measures in place that prevent employees from making a salary sacrifice in respect of certain benefits.

The salary sacrifice is ignored & the employee taxed on what should have been paid.

This doesn't include mobile phones as non taxable.

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QUESTION NUMBER

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