

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Owner-Managed Businesses

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a manager in AD Accounting, a firm of accountants and Chartered Tax Advisers.

Your clients are Briggs Ltd and its shareholders.

Your tax partner, Danny Pine, has recently attended a shareholders' meeting of Briggs Ltd. It was clear that there has been a very significant disagreement between Michael Briggs and Pedro Hellas, two of the principal shareholders, on both a business and personal level. It is unlikely that the individuals will be reconciled and the disagreement is having an adverse impact on the operation of the business.

The following exhibits are provided to assist you:

EXHIBIT A: Shareholders' meeting note prepared by Danny Pine

EXHIBIT B: Email from Michael Briggs to Danny Pine

EXHIBIT C: Form SA302, tax calculation for Mrs Dianna Peach, 2023/24

EXHIBIT D: Pre-seen information

Requirement:

Prepare a report to the directors of Briggs Ltd, for review by Danny Pine, providing advice and recommendations on removing Dianna and Pedro as minority shareholders of Briggs Ltd and increasing the shareholding of Henry Fall.

Continued

EXHIBIT A

Shareholders' meeting note prepared by Danny Pine

Client: Briggs Ltd
In attendance: Michael Briggs, Pedro Hellas, Dianna Peach, Henry Fall, Danny Pine (for AD Accounting)
Subject: Shareholder dispute
Author: Danny Pine

Date: 21 October 2024

I attended a meeting of the directors and shareholders of Briggs Ltd on 19 October 2024. The draft accounts to 30 June 2024 are attached (**EXHIBIT D**). Both turnover and profits have fallen and this is largely because of significant disagreements between Pedro Hellas and the other shareholders.

I received the attached email from Michael (**EXHIBIT B**) the day after the meeting.

The shareholders agreed that the current situation could not continue and we have been asked by Michael and Pedro to advise on how best to allow Pedro to exit from the company as quickly and tax efficiently as possible.

Dianna Peach is the retired finance director of the company. She is not in good health following the death of her husband. She is asset rich, including her home, but living on a fairly modest pension (we deal with her personal tax returns and I have attached Form SA203 (**EXHIBIT C**)). She remains on good terms with the other shareholders and would like to sell some or all of her shares in order to supplement her current annual income.

Henry Fall currently holds a small minority shareholding. The directors would be happy to see this increase to around 10% of the company. He has limited personal resources and will not be able to pay more than par value for any shares that he acquires. Any shares that he acquires will be contingent on the company's turnover increasing by at least 35% over the next two years.

The shareholders have asked that we advise on the most appropriate and tax efficient mechanism to achieve the objectives set out above.

I explained to the shareholders that we may have a conflict of interest but they have asked that we advise the directors of the company initially. The exiting shareholders have acknowledged that they may need to obtain independent advice.

Danny Pine
AD Accounting
21 October 2024

Continued

EXHIBIT B

Email from Michael Briggs to Danny Pine

From: MB@briggs.co.uk
To: D.Pine@ADac.co.uk
Date: 20 October 2024

Hi Danny

Thanks again for attending the shareholders' meeting yesterday. I'm sorry that it became so heated. You will understand that Pedro and I can no longer work together, so I look forward to your advice on how best to achieve a fair exit from the company for him.

We have agreed that a value of £275 per share is a fair open market value for Pedro's shares and reflects his minority shareholding in the company.

My personal resources are limited at the moment but I would be willing to borrow funds in order to acquire Pedro's shares if necessary. I certainly do not want them to go to a third party.

Pedro has worked for the company for over seven years. Our employment contracts are silent on any entitlement to a termination payment. We have agreed an ex-gratia termination payment equivalent to one year's salary of £120,000. This will include his statutory redundancy entitlement of £24,234. His contract includes a six-month notice period but I would prefer that he leaves before then. I would like to request his resignation as a director and employee as soon as possible. To the extent he does not work his full notice period then he will receive an additional payment in lieu of notice equivalent to his unworked salary.

I was surprised to hear that Dianna's personal financial situation was so difficult. She retired several years ago and I was aware that she has a number of serious medical conditions which have become worse following the death of her husband in March. We would be happy to provide assistance if possible but I have no wish to increase the level of dividends paid. As Dianna does not contribute to the running of the business this may be an opportunity to further tidy up the minority shareholdings.

Finally, as you know, Henry has been a real asset to the company since he joined us as a non-executive director. He has confirmed that he has no capacity to increase his hours because of his other work commitments but I would hate to lose him to the competition, so would be interested in increasing his shareholding as discussed at the meeting.

I look forward to hearing from you

All the best.

Michael
Briggs Ltd

Continued

EXHIBIT CForm SA302, tax calculation for Mrs Dianna Peach, 2023/24

| | |
|----------------------------------|--------------|
| | £ |
| UK Pensions and state benefits | 18,420 |
| Interest from UK banks | 476 |
| Dividends from UK companies | 300 |
| | 19,196 |
| Minus | |
| Personal allowance | (12,570) |
| Total income on which tax is due | <u>6,626</u> |

Income Tax due

| | £ | <u>Rate</u> | £ |
|--|--------------|-------------|--------------------|
| UK Pensions and state benefits. | 5,850 | 20% | 1,170 |
| Interest from UK banks | | | |
| Starting rate | 476 | 0% | 0 |
| Dividends from UK companies | | | |
| Basic rate band at nil rate | 300 | 0% | 0 |
| Total income on which tax has been charged | <u>6,626</u> | | |
| Income Tax due after reductions | | | <u>1,170</u> |
| Minus tax deducted | | | (1,244) |
| Total tax refund due | | | <u><u>(74)</u></u> |

Continued

EXHIBIT D

Pre-seen information

Clients

Briggs Ltd and its shareholders. You have acted for Briggs Ltd since October 2014.

Shareholdings

| | <u>Shareholding</u> (£1 ordinary shares) | <u>Acquisition history</u> |
|----------------|---|---|
| Michael Briggs | 7,200 | Founder shares, issued at par value September 1998. |
| Pedro Hellas | 2,000 | Purchased from Michael Briggs in June 2017 for £60 per share. The shares were unrestricted and the market value at the time was £100 per share. |
| Dianna Peach | 800 | Founder shares issued at par value September 1998. |
| Henry Fall | <u>300</u> | Subscribed June 2016. Paid market value of £90 per share. |
| Total | <u>10,300</u> | |

All shares rank equally and there are no restrictions attached to the shares.

Shareholder details

| | |
|----------------|--|
| Michael Briggs | Aged 56. Founder and managing director of Briggs Ltd. He is married with three adult children. |
| Pedro Hellas | Aged 51. Senior sales director. Joined Briggs Ltd in June 2006. |
| Dianna Peach | Aged 76. Retired finance director. She is a widow and has two adult children. |
| Henry Fall | Aged 41. Non-executive director appointed in February 2020. He works 20 hours per month for Briggs Ltd. He has a similar role with four other unrelated companies. |

All of the shareholders are unconnected and are UK resident.

None of the company's shareholders have made substantial chargeable gains in the past.

Briggs Ltd details

Briggs Ltd is a successful marketing business. Its principal activity is marketing and managing the on-line media presence for a range of UK manufacturing businesses. It was first registered on 8 September 1998 and commenced trading on 1 October 1998. The accounting reference date is 30 June each year.

Tax Information

VAT Registration number: 124657133
Registration date: 1 October 1998

All supplies are standard rated.

Briggs Ltd Profit & Loss account for the year ended 30 June 2024 (draft)

| | <u>30 June</u> <u>2024</u> | <u>30 June</u> <u>2023</u> |
|-----------------------------|-------------------------------|-------------------------------|
| | £ | £ |
| Turnover | 2,235,000 | 2,947,000 |
| Cost of Sales | <u>(1,249,600)</u> | <u>(1,704,800)</u> |
| Gross Profit | 985,400 | 1,242,200 |
| Administrative Expenses | <u>(669,300)</u> | <u>(729,900)</u> |
| Profit before Taxation | 316,100 | 512,300 |
| Tax on profit | <u>(97,200)</u> | <u>(112,075)</u> |
| Profit after Taxation | <u><u>218,900</u></u> | <u><u>400,225</u></u> |
| Average number of employees | 13 | 14 |

Briggs Ltd Balance Sheet for the year ended 30 June 2024 (draft)

| | <u>30 June</u> <u>2024</u> | <u>30 June</u> <u>2023</u> |
|---|-------------------------------|-------------------------------|
| | £ | £ |
| Fixed Assets: | | |
| Tangible assets | 989,000 | 914,000 |
| Current Assets: | | |
| Work in Progress | 943,000 | 821,000 |
| Debtors | 282,400 | 213,000 |
| Cash at Bank and in hand | <u>611,200</u> | <u>606,900</u> |
| | 2,825,600 | 2,554,900 |
| Creditors: Amounts Falling due within One Year | <u>(444,000)</u> | <u>(402,300)</u> |
| Net Current Assets/(liabilities) | 2,381,600 | 2,152,600 |
| Creditors: amounts falling due after more than one year | <u>(512,000)</u> | <u>(501,900)</u> |
| | <u><u>£1,869,600</u></u> | <u><u>£1,650,700</u></u> |
| Capital and Reserves: | | |
| Called Up Share Capital | 10,300 | 10,300 |
| Profit and Loss Account | <u>1,859,300</u> | <u>1,640,400</u> |
| | <u><u>£1,869,600</u></u> | <u><u>£1,650,700</u></u> |

The cash at bank represents accumulated trading profits, and Briggs Ltd is a qualifying trading company for the purposes of Business Asset Disposal Relief.