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	**601**	**2991**	**3588**
Section 2	**801**	**3634**	**4424**
Section 3	**469**	**2073**	**2526**
Section 4	**464**	**2089**	**2547**
Section 5	**592**	**2712**	**3277**
Section 6	**699**	**3291**	**3943**
Total	**3626**	**16790**	**20305**

Answer-to-Question-_1_

Capital allowances computation

	AIA	FYA@ 100%	Main	Special	FYA Disposal
TWDV B/f			287,000	12,000	
Additions					
New Production Machine (W1)	241,000	79,000			
Strenghthening building floor W2	12,000				
Second Hand Lorry W3	32,000				
New Packing Machine W4	715,000				
Integral features W5					
Disposals					
Pressing Machine W6					(32,000)
Boiler W7				(15,000)	
Totals	1,000,000	79,000	287,000	(3,000)	(32,000)
WDA @ 18%			**(51,666)**		
Balacing Charge on special rate pool				**3,000**	
FYA and AIA Claim	**(1,000,000)**	**(79,000)**			**32,000**
TWDv C/f			235,334	Nil	

W1: Capital allowances are available on the capital cost of the new production machine. Where an item is acquired on hire purchase capital allowances are claimed when the item is first bought into use. The item was bought into use during the period and so £320,000 can be claimed. As the deposit was paid in the same period there is nothing material re: the deposit. The element of each payment that is interest will be given as a revnue deduction (on the accruals basis)

W2: Expenditure to strenghten floors so they can accomdate plant is treated as expenditure of that plant. Capital allowances can therefore be claimed.

W3: Second hand lorry: The second hand lorry - AIA can be claimed on this expenditure. FYA's cannot be claimed as the item was not purchased new.

W4: New packing machine. The item is plant and therefore FYA's at 100% can be claimed.

W5: Integral Features on building. The element of the building purchase that is integral features can only be claimed if both the ficed value and pooling requirements are met. The fixed value requirement is that the purchaser and seller "fiX" a value that they will include in both of their capital allowances computation. Alter

The pooling requirment is that the seller included the integral features in their capital allowances pools (although their is no requirement that CA's are actually claimed. Given that Boxtransfer is unaware how these were treated, nor was a fixed value determined. As such, capital allowances cannopt be claimed by Boxtransfer Ltd on this intergal item.

Note: As total expenditure on plant is more than £1m, an element of the prodictuion machinary has had 100% FYA claimed on it.

W6: Where the super deduction is claimed, a balancing charge equel to 100% of proceeds aruising on disposal.

W7: Boiler in a integral feature and therefore disposal comes off the special rate pool.

The total capital allowance claim is 1,000,000 + 79,000 + 51,666 - 3,000 - 32,000 = 1,095,666

Requirement 2

SBA's can be claimed where:

1. Construction of a buyildings begins after 29 october 2018
2. Qualifying expensidture is incurred after that date
3. The first use of the building is non residential.

A person is entitled to the allowance if they use the building after that date, their is no requirement they are the first user, or rhat the previous owner claimed SBAs.

Given this, SBA's can be claimed by Boxtransfer at 3% on the manaufaturing site acquition. There is no requirement that the previous owner claimed SBAs

- The amount paid by the pruchaser that qualifies (i.e. the cost of the buidling, excluding land, fictures, stamo)
- The qulaiofying expnditure of the deleoper.

Given that developers would like to make a profit, it is is likley that the qualifying expenditure of the developer will be lower.

The orignal purchaser or Boxtrasnfer LTD will need to ask the developer for detauils of qaulifying ependiture they incurred in order to claim SBA's. If they are unable to obtain this SBA's will not be available.

The SBA will need to be appoprtoned in the period of purchase i.e 6/12 * 0.03 could be claimed

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

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

Answer-to-Question-_2_

Adjustment to profit calculation

P/e 31 march 2025			
Net Loss per accounts	(129,807)		
Lease premium disallowed W1	51,840		
Set Up Costs W2	28,750		
Add Back Computer W3	1,500		
medical Expense W4	(138)		
Total Profit Before CA's	**(47,855)**		
Capital Allowances W5	(23,931)		
Total Profit/Loss	**(71,786)**		

W1: Part of the lease premium will be treated as capital expenditure. This amount is calculated as follows: 0.02 * (15-1) * 54,000 = £15,120. The remaining expenditure (i.e 54,000 - 15,120 = 38,880) will be treated as a rental expense (i.e revenue) but releief is spread across the lease period. Therefore relief of 38,880 *1/15 * 10/12 = £2,160 will be allowable in this period. Therefore 54,000 - 2,160 = 51,840 will need to be added back.

W2: Pizza Oven is a capital expense and therefore releif given via capital allowances, as are dining tables. Software is plant per s.71 CAA 2001 and so relief also given via CA's. All costs added back.

W3: relief for the market value of the computer when it was bought into use will be given via capital allowance. Add Back £1,500 in accounts

W4: Class 1A NIC's will be due in respect of the medical insurance. Although this will be paid post year end (22nd July), relief is given for the period of account under the accruals bases. Subtract 1,000 * 0.138 = 138. Medical expenses paid for employees is an allowable cost for a trader.

W5 Capital Allowances Computation

	AIA	Computer (PUA) 75%	General	Special	CA Claim
Pizza Oven	21,000				
Dining Tables N2			5,750		
Software	2,000				
Computer		600			
Totals	23,000	600	5,750	nil	
WDA @ 18% * 10/12 n5		(90) * 0.75	(863)		931
WDA @ 6% * 10/12				nil	nil
AIA	23,000				23,000
Total Claim					23,931.

Note to CA comp
N1. Some of the items were purchased prior to the start of the trade. Relief is given as though expenditure was incurred on the first day of the trade.

N2: The dining tables were acquired from a connected person and as such, AIA cannot be claimed.

N3: Plant per s.71 CAA 2001.

N4: The computer is a private use asset. The amount brought into account for CA's is the MV of the asset when it was brought into use for the trade i.e £600. Computer is a private use asset, so goes into it's own pool. The small pool allowance of £1,000 does not apply to PUA.

N5: WDA is reduced proportionatley as accounting period is less than 12 months. AIA also reduced, although no effect here.

Use of Loss

Harriets total loss is 71,786.

Carry forward: In the absence of any claims the loss will be carried forward to be used in future profits of the same trade. Harriet's income for the following year will mean she receives relief at 20% and 40% and waste her personal allowance is she does so. This is not the most efficient way to use her loss.

Current year or carry back claim: Harriet may make a claim to carry back her loss to 2023/24 or use the loss agsisnt her current year income i.e £46,000. The current year claim is not advisable as her marginal rate of tax for this year is lower than prior years.

Carry Back and terminal loss relief claim

The Carry back claim would save her tax at 45%. She is restricted to the amount of loss she can use by s.24A, limit of step 2 deductions.

She should further make a claim for early year loss relief. This will utilise the balance of her loss (i.e. 21,786) This also saves tax at 45%.

However making a carry back claim with a early year loss relief claim, would mean she is unable to make an early year loss relief claim agsisnt income of 2023/24 in 20227/28

As such, it is better to simply make an early year loss relief claim. This reduces income in 2021/22 and 2022/23 by £50,000 and 21,786 respectivelty and allows an early year loss releif claim agsisnt income in 2023/24

Outline of best loss relief

	2021/22	2022.23	2023/24	2024/25	
Other Income	182,000	184,000	197,500	46,000	
Trading Income				(71,786)	
C/b loss Releif (limited by S.24A)					
Early year loss relief	50,000	21,786			
taxable income	132,000	162,214	197,500	46,000	

Whole loss is utilised, further losses cannot be carried forward.

2. National Insurance.

Harriet will not pay CLass four NICs in 2024/25 but will pay Class 1 NICs. Where she has carried back her loss, this does not effect the Class 4 NIC loss position. As such, in 2025/26 (assumiong profits of £62,000) she will be able to utilise her NIC loss, thus reducing her income for Class four NIC to zero. In 2025/26 the balance of her NIC loss will be used to reduce her income by £9,786. She will pay NICs on this profit.

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

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

Answer-to-Question-_3_

Does Grabel technolgoies qualify for Business Asset disposal relief.

Buisness asset disposal releief is avaiable when shares are disposed of and the following conditions are met:

1. The company is a trading company
2. The seller owns at least 5% of the shares
3. The seller works fro the company or is a office holder
4. These condtions have been met for the last two years.

The final three conditions are trivially met. There is also no minimum hourse requirement and as such the fact that Maxine cut her hours in immaterial, not is the amount of time she spends working on the investment side of the buisness.

A company is a trading company is it does not have activities that are not substantially trading. There is no brightline test and HMRC will look at all aspects of the companies business in the round. However HMRC have said they will not challenege that a comapny is trading if less than 20% of it's assets and income are not trading.

1. The asset base of the company is £8M and £1.2Mof this is investment income. This is 15% of the companies asset base.
2. 12% of the companies revenue is investment income.

As such the comnpanuy is a trading company and BADR can be claimed on a sale of shares.

Sale of Factory

The sale of the facrtory will qualify as a associted disposal. it has been owneed by her for three yearts before disposal and used in the trade for two years before disposal. Despite their being a delay between the sale of the shares and the facvtory, HMRC will accept that the sale is asscoated as it ocurred less than 1 year afterher withdrawal.

Howeever given the sale of the the factory was on 15 April 2025, and the question asks about the tax liabailty of 2024/25 it will be chargable in 2025/26.

In any case BADR avaiable will be restricted by rent charged to the company after 5

April 2008. The total gain is 375,000 - 128,000 = 247,000

BADR will be avaible as follows

	Years		
April 05 - April 08	3	3/20 * 247,000	37,050
April 08 - April 22	17 years	17/20 * 247,000 * 0.3	62,985
April 22 -	3 years	3/20 * 247.000 * 0.1	3,705
Toal Possible Claim			103,740

Although £103,740 is BADR qualifying, this will not be able to be used as Maxine has already used £932,000 of her lifetime limit. As such, she will only be use BADR on £68,000 in 2025.26

It's unclear if BADR could have been claimed on her investment in March 2022, but we assume it was avauiable and properly claimed.

CGT Comp for 2024/25

	BADR Gains	Non BADR Gains	
Proceeds	800,000		
Cost	(30,000)		
Gain	770,000	-	
less AEA	(3,000)		
Total	767,000		
Tax @ 10%	**76,700**		

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

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

Answer-to-Question-_4_

Items which can be included on a PAYE settlement on those which are "minor" or if not minor are either payabale on a "irregular" basis ot in circumstances where it is "impratciable" to apply PAYE or apportion the value.

Relocation of new director

Relcoation expenses in excess of £8,000 are a taxable benefit for the new director. This is not minor, but is a irregular expense. Indeed SP5/96 speciffically mentions "relocation expenses in excess of £8,000 as expense which will fail the minor test but will qualify for inclusion in a PSA on the grounds of irregularity".

The relcoation fees in excess of £8,000 can therefore be included on the PSA. i.e £2,000

Staff Gifts

The gift to the employee of a dinner set is both minor and irregular and therefore qualifies for inclusion on a PSA.

The gift of shopping vouchers falls within the trivial benefit rules as they are worth less than £50 and not redeemeable for cash. As such, as it is not a taxable benefit, it will not be included on the PSA.

Staff Events

Staff events that cost less than £150 per head and are annual functions are not a employee benefit. As the cost is £4,000/20 = £200 per head, the entire amount is taxabale. It can be included on the PSA, being a minor benefit.

The cost opf the one-off event will be taxable. It can included on a PSA by virtue of it being irregular

PSA Registration

The company will need to regsiter for the PAYE settlement agreement. The employer will need to agree the scope of the PSA with HMRC by 6 July, agreeing which items may need to be included. The PSA will be carried forward to future years unless the mployer advises HMRC otherwiswe. Payment of tax dye should be made by 22nd October (or 19

October if payment is made by non-electronic means)

2. Calculation of tax due.

	£	£	£	£
Value of benefits paid to basic rate tax payers				
Dinner Set	250			
Xmas Party (4000/20 * 11)	2,200			
One off event (9,000/20 *11)	4,950			
Total paid to Basic rate	7,400			
Tax due at 20% on £7,400	£1,480			
Grossed up tax (1,480 * 100/80)	**£1,850**		1,850	
Higher Rate tax Payers				
Relcoation expense in excess of £8,000		2,000		
One off event (9,000/20 * 9)		4,050		
Xmas Party (4000/20 * 11)		2,200		
Total paid to Higher rate		8,250		
Tax Due at 40%		3,300		
Grossed up tax (3,300 * 100/60)		**5,500**	5,500	
Total tax			**7,350**	
Class 1B Nics due (7,400+8,250) * 13.8%			**2,160**	
total payable			9,510	

<u>The amount should be paid to HMRC, by 22 October 2025 if payment is made</u>

electrnoically. It should be paid by 19 October 2025, if it is not made electronically.

The payment is deductible for corporation tax purposes.

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

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

Answer-to-Question-_5_

5. A major trade in the conduct or nature of the trade can mean carried forward losses are not able to be used.

<u>Major Chnage in onwership</u>

A major chnage in the companyy's ownership needs to occur for these rules to be invoked. A change in onweship is defined at s.719 to one where Conditon A, B or C is met. In this scenrio condition A is not relevamnt. Condtion B is that tw or more people qacquire a holding of greater than 5% and these holdings together amount to more than 50% of the company.

Note that the gift to Francesca, is not included when analysing with a major change in ownership has occurred. S.720(6) exlcudes gifts of shares from these provisions.

The fact that Lucy's shares were purchased at different time is not materical. the MCINOCT rules will be in point where if there are two points in time three years apart where the conditon is met.

We can therefore compare the date 31 may 2022 to 31 May 2025, and note that within this period two or more people (Lucy and Russell) acquired a hiolding greater than 5% and these holdings together amounted to more than 50% of the company.

Therefore a major change in ownership has occurred. The chnage ocurred on 1 June 2024.

<u>Major Chnage in conduct or nature of trade (MCINOCOT)</u>

Where a major trade in the nature or conduct of trade occurs within the period theree years before or five years after the chnage in onwership.

The achnages that Lucy and Russell have made intially will not amount to a majot chnage. A rationlising of products (i.e. menu chnages) does not constuite a major change as per SP10/91 (para 10).

Simialary the chane in diring of staff will not constite a major chnage.

As such, up until 31 August 2024, a major chnage has not occurred.

However on 1st September when the company closed and thereafter reopened as a wine bar, this would clearly constitute a major change. It is simialr to the example used at SP10/91 where a public house chnaged it's busisess to a discoteque. It is a chnage of both customers and products and as such is a major change.

The chnage will mean that losses that accrued to Gino's limited prior to the chnage in ownership (i.e. 1 June 2024) will be blocked. They cannot be used agaisnt the trading profits arising after the change. Losses after the chnage in ownership can also not be carried back to periods prior (although not an issue here)

Corporation Tax Calculation

Calculation of corporation tax. There are three accounting periods as follows:

Period of account 1 - as the trade ceased in Ausgust 2024, the accounting periods ends there

1st April - 31 August 2024			
Profit up to 31 may	15,000		
Profit to 31 August	30,000		
less c/f loss W1	(15,000)		
Total	30,000		

W1: The carried forward loss may only be releived agsisnt profits arising before the chnage of ownership.

During the second period taxable profits are £100,000. The period runs from 1st September 2024 - 31 March 2025.

Calculation of tax

Profit from 1st April to 31 August	30,000		
Tax @ 25% W1		30,000	
Less Marginal relief		(278)	
Profit for final period			

tax @ 25%W4	100,000 @ 25%	25,000	
less mArgibnal relief W3		(10)	
Total		54,622	

W1: tax at 25% as small profits threshold is 50,000 * 5/12 = 20,833
W2: 3/200 x (104,166 - 30,000) * 0.25 = 278

W4: small profits trehold reduced proptions
W3: Placeholder figure, no time to calculate

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

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

Answer-to-Question-_6_

Trade Carried on as a sole Trader

Sole traders cannot claim R&D tax relief so a simple tax calcualtion is all that is required.

Profit	£80,000	**80,000**	
Less Personal Allowances	(12,570)		
Taxable Income	67,430		
TAX			
37,700 @ 20%	7,540		
29,730 @ 40%	11,892		
NICS			
37,700 @ 6	2,262		
11,892 @ 2	238		
Total tax/NICS	21,932	**(21,932)**	
After tax profit		**58,068**	

Trade Carried on by a company

We note the company is carrying on R&D qualifying expenditure. Relief will be given under the merged scheme as although the company may meet other criteira and is a SME, it will not make a loss. We first calculate the total qualifying R&D in appendix 1. we find that £31,895 is qualifying R&D.

R&D is work undertaken to resolve scientific or technological uncertainty. The AI based investment software application work is qualifying R&D.

The corp tax due is clacuclated in appendix 2 and is £11,233. Total profits (after payment of salary and accounting costs) are also calculated in appendix 2 and they are 66,680. Total amount avaibale as a dividend is therefore 66,680 - 11,233 = 55,447.

Peter's personal tax comptation is shown below.

	non savings	Dividend	tax

Salary	12,570		
Dividend		55,477	
Less PA	(12,570)		
Taxable	Nil	55,477	
500 @ 0%			0
37,200 @ 8.75%			3,255
17,777 @ 33.75%			6,000
NICs			**nil**
Total			9,255

No Class 1 Primary due as earnings are below the primary threshold

net cash in his hands is 12,570 + 55,477 - 9,255 = 58,792. Therfore there is slightly more cash in his hands when a company route is taken.

Appendix 2

Profits subject to Corporatation tax

Profit before salary costs and R&D	80,000		
Less Accounting Costs W1:	(750)		
Less Salary	(12,570)		
Less CLass 1 secondary On Salary W2	nil		
Total	66,680		
Add RDEC (31,895) * 0.2	6,379		
Total	73,059		
Tax W3		17,602	
Less RDEC		(6,379)	
total tax Due		**11,233**	

W1: Assumed that accouting costs are ongoing oncounting costs, which are allowable.

Company formation costs, if included in the above will be disallowed.

W2: See W4, appeneix 1, employment allowance reduces class 1 secondary to nil.

W3: tax due is 73,059 * 0.25 - (3/200 * (250,000 - 73059) * 0.25) = 18,265 - 663 = 17,602

Appendix 1 - Qualifying R&D

Ellen's R&D qualifying salary	25,610		
Peter's qualifying salary	6,285		
Subcontracted R&D	Nil		
Total	31,895		

W1: Ellen's salary and pension contributions will qualify. An apportionment will be made as only 50% of her work is R&D qualifying expenditure. (4,760 + 362) * 10 * 0.5 = 25,610.

W2: 1/2 of Peter's salary will qualify as R&D expenditure, the dividend he receives will not

W3: The testing is subcontracted R&D. Usually 65% of this cost is R&D qualifying expenditure but where R&D is subcontracted abroad, the expenditure is not qualifying R&D.

W4: The class 1 secondary NIC contributions for the employer will also be R&D qualifying expenditure.

Class 1 Secondary Calcualtion as below:

Ellen: earnings of £4,760 per month. (4,760 - 758) * 13.8 = 552. Tom's NIC's will be less, we do not need to calcul;ate as the employment allowance of £5,000 will be avaiable and no Class 1 secondary NICs will be paid anyways.

2. Using a company will mean Peter is able to claim releif for R&D related expnditure. This is not possible using a sole trade.

A comnpany also provides limited liabailty which would be useful in this scenario. A company enganaging in a large amount of R&D may incur losses and as such limited libailty is very useful.

Using the company will also allow Peter to time his extraction, should the company make larger profits in future. This will mean he is not taxed on all income as it arises.

In loss making periods, the company will be able to use the SME scheme for R&D providing it meets the other conditons, and this can provide a cash amount to the company if it making a loss.

The sector he is in, i.e. AI based investment services, is one which would appeal to external investors. If he wishes to use funds from extenral investors, it is much simpler to issue shares in exchnage for these investments as opposed to selling part of the trade.