The Chartered Institute of Taxation

Advanced Technical

Taxation of Owner-Managed Businesses

November 2023

Suggested solutions

QUESTION 1

1. Capital Gains

Each asset transferred to V-Cakes Ltd needs to be considered separately.

Shop and flat:

	£
Deemed proceeds	190,000
Cost	140,000
Gain	50,000

As the shop and flat are gifted to a connected party, proceeds are equal to market value.

Plant and machinery:

As the assets have been eligible for capital allowances, no capital loss arises.

Goodwill:

	£
Deemed proceeds	385,000
Cost	96,000
Gain	289,000

As above, proceeds are equal to market value.

Base cost of shares in V-Cakes Ltd:

As the plant and machinery and net current assets have been transferred in exchange for shares, the shares in V-Cakes Ltd will have a base cost of £86,000.

Reliefs available:

Incorporation relief is not available to Veronika because not all of the assets of the business were transferred. She retained personal ownership of the factory.

Veronika can, however, make a claim for gift relief. This relief means that Veronika will not have an upfront tax charge in respect of the assets gifted, but will reduce the base cost of those assets for V-Cakes Ltd. This requires a joint claim by Veronika and V-Cakes Ltd. This must be made within four years from the end of the tax year of disposal.

As the goodwill is a business asset, full gift relief is available.

The shop and flat have been used partly for business (one floor) and partly for non-business (one floor). Only 50% of the gain will, therefore, be eligible for gift relief. A gain of £25,000 will remain after any gift relief claim.

Business asset disposal relief (BADR) will be available on the remaining gain on the shop and flat as, with a main disposal by a sole trader, there is no requirement for all of the asset to be used in the business..

An annual exemption of £12,300 will be available to deduct from the remaining gain (providing this has not already been used in the tax year) leaving £12,700 to be taxed at 10% resulting in a capital gains tax liability of £1,270.(separate valuations of each part may be used instead of apportionment).

If gift relief is claimed, this will result in a lower base cost of the goodwill and the shop and flat for V-Cakes Ltd. The goodwill would have a base cost of £96,000 and the shop and flat £140,000.

Veronika, may consider, not claiming gift relief and instead claiming BADR on an asset by asset basis. As Veronika will hold greater than 5% of the shares in V-Cakes Ltd, BADR will not be available on the transfer of the goodwill. This will mean that the full gain on the goodwill will be taxable at 20%. The gain on the shop and flat would be eligible for BADR resulting in it being taxable at 10% instead of 20% if Veronika has not used up her lifetime BADR limit. Veronika should allocate her annual exemption against the part of the gain which does not qualify for BADR.

Income Tax

As the sole trader business has ceased, Veronika is taxed on the period from 1 April 2022 to 31 December 2022 with no overlap relief.

A balancing charge of £32,000 would apply on the cessation of Veronika's sole trader business.

Veronika and V-Cakes Ltd will be connected persons. A joint election can be made within two years of the transfer date for the plant and machinery to be transferred at tax written down value.

This will prevent the balancing charge arising in Veronika's sole trader business saving income tax at 40% but will mean that V-Cakes Ltd will have a nil TWDV on the plant and machinery.

2. Inheritance tax

The assets may qualify for Business property relief (BPR) in the event of death or transfer of ownership by Veronika.

Prior to incorporation, Veronika had a sole trader business which qualified for 100% BPR.

As a result of incorporation, Veronica now has two assets– the shares in V-Cakes Ltd and the factory. The shares are in an unlisted trading company and will, therefore qualify for 100% BPR.

The factory held in personal ownership will only qualify for 50% BPR on transfer/death.

The flat would likely be excluded from BPR either as part of a sole trader business or as an excepted asset in a limited company.

National Insurance

As a sole trader, Veronika would have been paying Class 2 and Class 4 National Insurance contributions (NICs) payable via the self-assessment system.

Class 2 NICs is £3.15 per week which she will pay until the business transfers on 1 January 2023.

Class 4 NICs is charged on trading profits made in the tax year at 10.25% between 11,908 and 50,270 and 3.25% above £50,270.

After 1 January 2023, NICs apply to Veronika's salary. There are no NICs due on Veronika's rental income or on dividends paid to Veronika from V-Cakes Ltd.

Class 1 primary NICs are charged on Veronika on her salary at 13.25% between £1,048 and £4,189 per month and 3.25% above this.

V-Cakes Ltd is charged Class 1 secondary NICs at 15.05% above £758 per month. If there are other employees, V-Cakes Ltd may be able to benefit from the employment allowance
Class 1 NICs is payable to HMRC monthly through PAYE.

As Veronika is liable to class 1 NICs in the same year as having paid Class 2 and Class 4 NICs the annual maxima rules may apply to determine the Class 4 NICs payable for the year.

MARKING GUIDE

TOPIC	MARKS
Transfer of assets to V-Cakes Ltd	
Gain on High Street premises	1
Plant and machinery – no loss	0.5
Gain on goodwill	1
Base cost of shares	0.5
No incorporation relief	0.5
Gift relief claim/time limit	0.5
Gift relief on goodwill	0.5
Gift relief on High Street premises	0.5
Business asset disposal relief on remainder	0.5
Annual exemption, Capital Gains Tax	1
Low base cost in company	1
Business asset disposal relief if no gift relief claim	2
Cessation of business	0.5
Balancing charge/election	2
SUB TOTAL	12
Inheritance Tax	
Business property relief (BPR) identification	0.5
BPR on sole trader business	0.5
BPR after incorporation	2
SUB TOTAL	3
National Insurance	
NICs as sole trader	1.5
NICs for Veronika after incorporation	1.5
NICs for V-Cakes Ltd after incorporation	1.5
Annual maxima identification	0.5
SUB TOTAL	5
TOTAL	**20**

QUESTION 2

Part 1

The income received from Hotel Guide Ltd is likely to be treated as income from a relevant engagement as:

- Claire is obliged to personally perform services for Hotel Guide Ltd;
- The services are not provided under a contract which is directly between Claire and Hotel Guide Ltd, but involve a third party – Towering Media Ltd; and
- If the services had been provided directly to Hotel Guide Ltd, Claire would been regarded as being an employee of Hotel Guide Ltd.

This is primarily because Claire's work content and working hours are controlled by an employee of Hotel Guide Ltd. She is also obliged to provide her services personally and cannot send anyone else in her place. She has only one other engagement, which does not provide substantial income.

Although she provides her own laptop, this is not likely to be a material factor in comparison to those above.

Hotel Guide Ltd is a small company and therefore it is Claire's obligation to determine whether the "off-payroll working" rules apply.

The steps to be followed in the calculation below are outlined in s.54 ITEPA 2003. As this is for 2022/23, the relevant company figures will be taken from 1 July 2022 to 31 March/5 April 2023 (9 months).

Calculation of deemed payment	Note	£
Income from relevant engagements (9 x £6,250)		56,250
Less: 5% deduction		(2,812)
		53,438
Less:		
Expenses paid by employer allowable as deductions if paid by employee:		
Professional subscription		(300)
Employer pension contributions (9 x £1,000)		(9,000)
Employer's NIC on worker's pay	1	(1,004)
Class 1A NIC	2	(60)
Actual salaries and benefits paid:		
Salary (9 x £1,500)		(13,500)
Accountancy fee		(400)
Gross deemed payment		29,174
Less: Employer's NIC on gross payment	3	(3,816)
Net deemed payment		£25,358

PAYE/NIC liability

	£	£
Salary from Hotel Guide Ltd		22,500
Salary from Towering Media Ltd		13,500
Deemed payment (above)		25,358
		61,358
Allowances per tax code		(12,570)
Taxable earnings		48,788
Tax on deemed payment:		
£37,700 @ 20%	7,540	
£11,088 @ 40%	4,435	
	11,975	
PAYE to date	(4,686)	
		£7,289
Class 1 NIC on deemed payment:		
Employer		
£25,358 @ 15.05%		£3,816

Notes:

1 – (£13,500 – (£9,100 / 12 x 9)) @ 15.05% = £1,004
2 – Accountancy fees of £400 @ 15.05% = £60
3 – £29,174 x 15.05 / 115.05 = £3,816
4 – Training courses would not be allowable against employment income if paid by an employee.
5 – Medical insurance is paid after 5 April 2023 and so will be part of deemed payment for 2023/24
6 – Reimbursed travel expenses would not be allowable against employment income as the travel is to a permanent workplace and therefore "ordinary commuting".

Part 2

	Note	£
Accounting profit before tax		45,000
Less:		
Capital allowances	1	(3,063)
Gross deemed payment from Hotel Guide Ltd (arising on 5 April 2022)		(29,174)
Deemed direct payment from Sterling Stories Ltd		(6,500)
Tax adjusted profit		6,263
Corporation tax at 19%		£1,190

Note 1 – Capital allowances

	Laptop 1	Laptop 2	Allowances
	£	£	
TWDV b/f	-	-	
Additions:			
Laptop 1	1,500		
Laptop 2		2,000	
Disposals:			
Laptop 1	(1,000)		
	500	2,000	
122.5% super-deduction on net additions (1)	(613)	(2,450)	(3,063)
TWDV c/f	-	-	3,063

(1) as the accounting period ends after 1 April 2023, a reduced rate of super deduction is available based on the number of months prior to 1 April 2023 in the accounting period

= 9/12 x 30% + 100% = 122.5%

This same relevant percentage applies to both the additions and the "clawback" on the disposal and therefore the net addition of £500 in respect of laptop 1 will benefit from the 122.5% allowance.

MARKING GUIDE

TOPIC	MARKS
Factors for	1.5
Factors against	0.5
Conclusion	0.5
Implication of it being a small engager	0.5
Income from relevant engagements	0.5
5% deduction	0.5
Correct deductions from income (½ each)	3
Calculation and deduction of employer’s NIC	1
Inclusion of salaries in PAYE calculation	1
Deduction of allowances	0.5
Calculation of tax due	1
Deduction of PAYE to date	0.5
Stating employer’s NIC on deemed payment	0.5
Calculation of employer’s NIC on salary	0.5
Class 1A NIC calculation	0.5
Training course/medical insurance/reimbursed expenses	1.5
SUBTOTAL	14
Part 2	
Deducting capital allowances	0.5
Gross payment from Part 2, with comment	1
Deemed direct payment from Sterling	1
Calculation of CT	0.5
Additions/disposal	1
Calculating CAs	0.5
Reduced super-deduction percentage	1.5
SUBTOTAL	6
TOTAL	**20**

<u>QUESTION 3</u>

1. <u>Calculation of terminal loss</u>

Adjustment to profit – p/e 31 December 2022

	Workings	£
Loss per accounts		(63,400)
Sale to connected business	1	22,500
Gifts to family	2	4,000
Auction costs	3	(5,000)
Rent provision	4	-
Motor and travel costs		
- private use (car)	(6,600 + 4,800) x 60%	6,840
- private use (motorbike)		1,200
- leasing costs	6,600 x 40% x15%	396
Entertaining	5	2,400
Gifts to customers	6	900
Depreciation		4,800
Balancing charges	7	12,300
Adjusted loss		£(13,064)

Workings:

1) Stock sold to brother's UK business, valued at market value, adjust for profit margin. £45,000 x 50%.

2) Gifts to family, valued at market value, adjust for profit margin. £8,000 x 50%.

3) Sale at auction, allow for sales costs: £5,000

4) The rent provision is allowed as it complies with FRS102.

5) All entertaining costs are disallowable: the staff cost is not allowable as it is incidental to the provision of entertaining for others (s46 ITTOIA 2005).

6) Gifts to the top 10 customers are disallowed as they cost £90 each in total. The cost of the gifts to the remaining top customers contain the business logo and do not exceed £50.

7) Capital allowances

	Balancing charges £
Landlord reimbursement	4,000
Value of motorbike	4,600
Less private use	(2,300)
Workshop equipment	6,000
	£12,300

<u>Notes</u>

(a) The disposal value of the tenant's improvements is the landlord's reimbursement.
(b) The market value of the motorbike at cessation is used as the disposal value, less an adjustment for private use.
(c) The net sale proceeds of the workshop equipment are included as the estimated market value at cessation.

Loss for 2022/23 and Terminal loss

	£
Tax adjusted loss p/e 31 December 2022	(13,064)
Transitional overlap relief	(16,000)
Tax adjusted loss for 2022/23	(29,064)
Tax adjusted loss 1 January 2022 to 31 March 2022	
3/12 x 14,000	(3,500)
Terminal loss	£(32,564)

2. <u>Loss relief options</u>

Pierre could make a claim under s.64 ITA 2007 for the loss of £14,000 incurred in the year ended 31 March 2022 to be set against his other income of £15,000 for 2021/22. He could also claim the loss against his net income of £22,000 for 2020/21. Both of these options would waste some personal allowances. However, the carry back relief will be more beneficial.

The loss of £29,064 for 2022/23 could also be offset against Pierre's other income of £15,000 under s 64 ITA 2007, in the same way, again wasting all his personal allowances.

Finance Act 2021 allows an extended loss claim for the loss of £14,000 for 2021/22. The Act allows for a further claim to be made against the trading profits for the three years prior to 2021/22. However, as the s64 claim in either year would use the £14,000 loss completely, there would be no potential for this claim.

Under ss.89-91 ITA 2007 Pierre can also make a terminal loss claim. The loss of £32,564 can be carried back against the trading profits of £7,000 for 2020/21 then 2019/20 (there is a loss in 2021/22). The remainder of the loss for 2020/21, not included in the terminal loss can still be relieved against his other income as above.

MARKING GUIDE

TOPIC	MARKS
Part 1 – 2022/23 and terminal losses	
Adjustment for sale of stock to connected party	1
Adjustment for gift to family	0.5
Adjustment to net realisable value	0.5
Comment on provision for rent	0.5
Private use of car and motorbike	1
Lease restriction	0.5
Entertaining disallowed	1
Gifts disallowed	1
Depreciation disallowed	0.5
Inclusion of balancing allowances	0.5
Calculation of balancing charges	1.5
Inclusion of transitional overlap relief	0.5
Inclusion of balance of loss from 1 January 2022 to 31 March 2022.	0.5
Correct identification of losses (tax year/terminal)	0.5
SUBTOTAL	10
Part 2 – Loss reliefs available	
Use of loss for 2021/22	1
Noting waste of personal allowances	0.5
Extension of loss relief carry back	0.5
Restriction to trade profits	0.5
Application to circumstances	0.5
Use of loss for 2022/23	0.5
Restriction to trade profits	0.5
Identification of correct years	0.5
Availability of relief for balance of 2021/22 loss	0.5
SUBTOTAL	5
TOTAL	**15**

QUESTION 4

As the Limited Liability Partnership (LLP) will include both individuals and a company it will be a 'Mixed Partnership'. Special tax avoidance rules apply to mixed partnerships if certain conditions are met.

If an 'excessive' amount of the profits of the LLP is allocated to the company and either of the following conditions is met, HMRC have the power to reallocate the profits:

- the profit share allocated to the company represents the deferred profit of an individual partner; or

- the profit share paid to the company exceeds the appropriate notional profit and the individual partner has the power to enjoy all or any part of the company's profit share.

The first issue to address is the extent of the profits to be allocated. As the amount charged by Yoga IT Ltd for computer advice is at twice the arm's length rate HMRC can increase the profit to be re-allocated by this excess. As Anil is the only person dealing with IT matters then only the arm's length rate needs to be considered. If Kate had been involved in providing the IT services then part of the charge could have been ignored in totality.

The 15% profit share allocated to Kate will be taxed on her in the usual way and not subject to any adjustment. However the 15% allocated to Yoga IT Ltd which would otherwise be subject to corporation tax but not national insurance could be re-allocated to Kate, who would be liable to income tax at higher rates and to national insurance.

As Kate has the power to enjoy the company's profit share as a shareholder with her husband one of the above conditions is met and HMRC have the power to reallocate the profits to Kate instead of to Yoga IT Ltd. She would pay tax on a higher amount than her profit share and the company would be taxed on a lower equivalent amount. The excess profits reallocated would still be paid to the company but Kate would be able to withdraw them without additional liability to tax. Any such withdrawal would not be treated as a dividend for tax purposes. The company will still be liable to corporation tax on the arm's length extent of charges for computer services and due to having a different year end will be taxable on an accounting period basis.

If the LLP makes a loss similar provisions exist relating to the allocation of losses. If excessive losses are allocated to the individual members they may not be allowed tax relief for the losses allocated if they arise due to 'relevant tax avoidance arrangements'. A relevant tax avoidance arrangement is defined as any agreement or understanding for which the main purpose or one of the main purposes is to allocate losses to an individual rather than a company.

Finally as the LLP has a corporate partner it will not be able to claim the Annual Investment Allowance (AIA) for capital allowance purposes on any qualifying expenditure. The company will however be able to claim the AIA in the normal way for any qualifying assets acquired.

MARKING GUIDE

TOPIC	**MARKS**
Definition of a mixed partnership	1
Conditions for excess profit allocation	1.5
Charge for computer advice – Arms-length and potential adjustment	1
Power to enjoy as can choose split of profit allocation	1.5
Tax and national insurance savings	1
Reallocation of profits for tax purposes	1
Withdrawal of excess funds from company tax free and no dividend	1
Restricted use of losses	1
No AIA for capital allowances on LLP	1
TOTAL	**10**

QUESTION 5

1. Associated companies

The main rate of Corporation Tax increased on 1 April 2023 from 19% to 25%. However, for companies with profits below £50,000 the rate remains at 19%, the standard small profits rate.

This limit is however divided by the number of 'associated' companies in the accounting period. If therefore either of the companies is associated with DE Designers Ltd (DEDL) this could affect a claim for the standard small profits rate.

Companies are associated if one company 'controls' the other, or if the two are under common control.

Control is defined as having more than 50% of any of:

i. Voting power;
ii Share capital or issued share capital;
iii Entitlement to distributable profits;
iv. Entitlement to assets on a winding up.

The rights of a shareholder's 'associates' must also be considered if there is 'substantial commercial interdependence' between the companies. Associates include a person's spouse (civil partner), brothers, sisters, parents, children and remoter issue.

Substantial commercial interdependence considers three forms of interdependence; financial, economic and organisational. These three factors consider if a company gives financial support, has the same economic objectives that benefit each other or have the same customers or share management resources respectively.

When considering if companies are under common control HMRC will consider which group of persons has control and for each company what is the 'minimum controlling combination'. HMRC define the minimum controlling combination as the group of persons that has control but which would not have control if any one of the persons were excluded.

DE Designers Ltd (DEDL) is controlled by Darren and Eve together, who are the minimum controlling combination, as neither has control on their own.

Olive, as the sole shareholder in ODE Investments Ltd (ODEI), has control. As she is an associate of Darren and Eve, we must consider the substantial commercial interdependence test. The interest free loan to fund working capital will create financial interdependence and therefore ODEI will be associated with DEDL.

DES Developers Ltd (DESDL) is controlled by a minimum combination of any three from the four shareholders and is not therefore associated with DEDL. Whilst Sophie and Suni are associates of Darren and Eve, their shareholdings will not be combined as there is no substantial interdependence between the two companies. DEDL will not therefore be associated with DESDL.

2. Corporation Tax Computation

	Total	12 months to 31/1/2023*	4 months To 31/5/2023	2 months to 31/3/2023	2 months to 31/5/2023
		£		£	£
Taxable profits before capital allowances	60,000	45,000	15,000		
Less: Capital allowances (see below)	(55,240)	(52,550)	(2,690)		
Total taxable profits (TTP) / (Loss)	4,760	(7,550)	12,310		
Losses carried forward		7.550	(7,550)		
TTP after loss relief	4,760	-	4,760	2,380	2,380
Dividends received	500	-	500		
Augmented profits	5,260	-	5,260		
Corporation Tax at 19% on TTP		-		452	452
		£0	£904	£452	£452

* As DEDL commenced to trade on 1 February 2022 and has prepared accounts to 31 May 2023 it will have two accounting periods; the 12 month period to 31 January 2023 and the 4 month accounting period to 31 May 23. The 4 month period will then be split between the 2 months to 31 March falling into FY22 and the two months to 31 May 2023 falling into FY23.

Corporation Tax liability for the year ended 31 January 2023 = £nil

Corporation Tax liability for the period ended 31 May 2023 = £904 due for payment 1 March 2024.

As the Augmented Profits are below the lower limit of £50,000 divided by the number of associated companies (2) multiplied by 2/12 = £4,167 all profits are taxable at 19%.

Capital allowances

Year ended 31 January 2023

Date	Item	General pool	Special rate pool	Allowances	Notes
1/2/22	Furniture	12,000			1.
1/3/22	Computers	5,000			2.
1/4/22	Van	10,500			2.
1/5/22	Van	8,000			
12/1/23	Electrical re-wiring		10,000		3.
SD @ 130%		(23,500)		30,550	2.
AIA @ 100%		(12,000)	(10,000)	22,000	4.
TWDV c/fwd		-	-		
Allowances				52,550	

Period ended 31 May 2023

Date	Item	General pool	Special rate pool	Allowances	Notes
TWDV b/f		-	-		
12/3/23	Computer	3,000			5.
22/5/23	Furniture	2,000			6.
SD @ 130% * 2/4		(3,000)		3,450	5.
AIA @ 100%		(2,000)		2,000	6.
21/5/23	Disposal of van – £2,400 *130% * 2/4			(2,760)	7.
TWDV c/fwd		-	-		
Allowances				2,690	

Notes

1. As second hand no super deduction but will qualify for the 100% Annual Investment Allowance.
2. New computers and van qualify for the super deduction at 130%.
3. A part of the re-wiring was as agreed under the contract paid more than 4 months after completion that part is treated as acquired for capital allowance purposes at the later date. Integral features qualify for the special rate super-deduction of 50%, but the Annual Investment Allowance is more beneficial
4. The AIA is claimed against both the general pool and special rate pool additions.
5. As new and purchased before 1 April 2023 the super deduction is available however as it falls into an accounting period straddling 1 April 2023 the rate of super deduction is adjusted by the fraction 2/4 being the part of the period prior to 1 April, 2 months, divided by the length of the accounting period, 4 months.
6. As the furniture is purchased after 1 April 2023 the super deduction is not available.
7. As the van sold would have been subject to a super deduction claim the proceeds are increased by the relevant percentage as per note 5, 2/4*130%.

MARKING GUIDE

TOPIC	MARKS
Associated companies	
Associated company definition	1.0
Definition of control	0.5
Definition of associates	0.5
Substantial commercial interdependence	0.5
Minimum controlling combination	0.5
ODE Investments – identify associate issues	1.0
ODE Investments – specific comments	0.5
DES Developers Ltd – identify minimum controlling combination	1.0
DES Developers Ltd – identify that not associated	0.5
SUB TOTAL	6
CT computation	
Capital allowances	
Split into two accounting periods	1.0
Second hand furniture – no super deduction	0.5
New computer and vans – super deduction	1.5
Electrical re-wiring – pay after 4 months plus no super deduction	1.5
Integral features and second hand furniture - AIA	1.0
New computer – rate of super deduction	1.0
Sale of Van	1.0
Allocation of taxable profit into 2 accounting periods	1.0
Capital allowances deduction	0.5
Calculate TTP and losses for each period	1.0
Calculation of augmented profits for 1/4/23 to 31/5/23	1.0
Corporation tax on TTP at 19%	1.0
Identification of reasons why 19% rate applies (including associated companies and impact on thresholds)	1.5
Statement of payment date	0.5
SUB TOTAL	14
TOTAL	**20**

QUESTION 6

1. Taxable benefits

Vehicles

The vans provided to the engineers will not give rise to a taxable benefit where the private use is insignificant**.** Dropping children off at school on the way to work would be considered insignificant, but using the van at weekends would not. The taxable benefit will be £3,600 pa. If there is a van benefit then there will also be a fuel benefit of £688. This will not be reduced by the £10 per month fuel contribution from the employees.

For the supervisor's van the important question is whether this will be treated for benefit purposes as a car or van.

According to s.115 (1) ITEPA 2003, a car is any mechanically propelled road vehicle. The section goes on to list four exceptions. The two relevant exceptions are a goods vehicle or a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used.

S.115 (2) ITEPA 2003 defines a goods vehicle as a vehicle primarily suited for the conveyance of goods.

A van which has removable seats for passengers behind the driver's seat will be treated as a car as it is not primarily suited for the conveyance of goods. This has also been confirmed by the Upper Tribunal (*HMRC v Payne, Garbett and Coca-Cola European Partners Great Britain Ltd [2019] UKUT 0090 (TCC))* .The taxable benefit will be calculated on the list price of the vehicle, multiplied by the appropriate percentage for the CO_2 emissions .

The classic car used by Rashid will be taxable based on the market value for the tax year as this is higher than the list price.

Loan

The loan to the sales manager will be a taxable benefit. He will be taxed on the average balance outstanding at the official rate of interest for the tax months the loan is outstanding i.e. for 2023/24: 20,000 x 2% x 4/12 = £133.

Mileage

The mileage payments paid to the sales manager will be non-taxable up to the approved limit of 10,000 miles. As he expects to travel 25,000 business miles a year, he is unlikely to reach this limit for 2023/24. For 2024/25 onwards, he will be taxable on the miles over 10,000 i.e. 15,000 (25,000 less 10,000) miles at (45p – 25p) = £3,000.

Corporation Tax treatment of different acquisition methods

(1) The contract hire agreement is an operating lease. Relief will be given for the payments when they are made.
(2) Capital allowances can be claimed on the full cost of the vans when they are delivered i.e. in the year ended 31 December 2024.
(3) As there is more than four months between the payments capital allowances can only be claimed in the period in which each payment is made.

2. Reporting

The company will need to register with the PAYE online service and complete new starter forms for all the employees.

For each car the company should file a form P46 (Car) by 2 February 2024 (28 days after the quarter date of 5 January 2024).

The taxable benefits for the vans, cars, fuel, and loans will be included on form P11d which must be filed by 6 July 2024. Class 1A National Insurance contributions will also be calculated on the benefits and is payable by 19 July (22 July if paid electronically).

The excess mileage payments will also be included on the P11d, however no NIC will be due.

The company can elect to payroll the benefits, other than the loan benefit, from 5 April 2024. An election can only cover full tax years. The benefits are estimated for the year and then apportioned across the pay periods. A P11d would still need to be completed for the year to account for the Class 1A National Insurance.

MARKING GUIDE

TOPIC	**MARKS**
Part 1 – Taxable benefits	
Identification of significant/insignificant use	1.0
Van and fuel benefit	1.0
Employee contributions	1.0
Identification of goods vehicle definition	0.5
Application to van	1.0
Link to case law	0.5
Basis of calculation of car benefit	0.5
Classic car	1.0
Calculation of loan benefit	1.0
Calculation of mileage benefit	1.0
Corporation Tax treatment of each option	1.5
SUB TOTAL	10
Part 2 – Administration	
Set up of PAYE scheme	1.0
P46 (Car)	0.5
P11D	1.0
Mileage – no NIC	0.5
Identification of payrolling	0.5
Start date	0.5
How calculated	0.5
Requirement to complete P11d	0.5
SUB TOTAL	5
TOTAL	15