

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	366	1866	2187
Section 2	619	2750	3315
Section 3	339	1542	1860
Section 4	304	1377	1657
Section 5	351	1641	1986
Section 6	371	1743	2015
Total	2350	10919	13020

Asset	AIA		Main	Special rate		50% FYA
Balance			287,000	12,000		
Air conditioning						25,000
Lift						14,000
Electrical						12,000
1) Production machine	320,000					
Machine installation	12,000					
Second hand lorry	32,000					
new packing machine	636,000		79,000			
Disposals						
Boiler			(15,000)			
Pressing machine			(16,125)			

[illegible]

Building purchase

No capital allowances can be claimed on legal fees, and SDLT of £34,000, land of £250,000 and fixed portions of 5,000 as they falls under list A of S.21 Capital allowances act of 2001.

The lift electrical system are classed as integral features and therefore eligible for annual investment allowance and they also qualify for the 50% FYA.

Lorries qualify as commercial vehicles and therefore eligible for AIA.

As long as a S.198 election made within two years from the date of the purchase, capital allowances can be claimed on the fixtures of the building. The S.198 election is capped up to the cost of the initial expenditure incurred.

Production machine

As the machine was purchased via a hire purchase agreement, The company can claim capital allowances in full including any deposit paid if brought into use in the accounting period. Any interest paid will be claimed as a corporation tax deduction.

$$29,000 \times 2 = 58,000$$

$$58,000 \times 5 = 290,000$$

$$290,000 + 75,000 = 365,000$$

$$\text{Interest} = 45,000$$

Proceeds from plant and machinery are capped at the lower of proceeds and cost.

Pressing machine

$$\text{proceeds} = 15,000 + (30/12 \times 3 = 7.5\%) = 16,125$$

2)

As the building was constructed after 30 October 2018 the company will be able to claim structures and buildings allowance on the qualifying expenditure.

The costs for the building of £470,000 will qualify for structures and buildings allowance.

The land, fixed partitions and legal fees are disallowed.

Other Capital allowances can be claimed on the costs for the air conditioning, lift, electrical works.

However, they will need to receive a statement from the purchaser which outlines how much structures and buildings allowances they have already claimed.

SBA calculation

As the building was purchased unused

Building = 470,000

SBA 3% = 5,875

Brought into use 1 August 2024 - 31 December 2024

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

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

Answer-to-Question- _2_

Sole trader - 10 month period

Accrual basis

Net loss = (129,807)

1)Lease premium add back = 54,000
 allowable lease (2,160)

2) add back set up costs = 28,750

3) add back cost of computer = 1,500

4) no adjustment

Profit / loss before capital allowances =

Capital allowances = (28,818)

Tax adjusted loss = (76,535)

CA computation

Asset	AIA	main pool	laptop	claim
Pizza Oven	21,000			21,000
Dining tables	5,750			5,750
software	28,750			28,750
laptop			600	
balance			600	
WDA 18%			90	68
total				28,818

1)lease calculation

Lease premium is disallowed against trading profits as it is capital in nature.

Lease 54,000 - 15 years
capital gains = $54,000 \times 2\% \times (15-1) = (15,120)$
Income tax = 38,880

per year = $38,880 / 15 = 2,592$
Pro rata to march 2025 = $2,592 / 12 \times 10 = 2,160$

2) Set up costs

Harriet can claim capital allowances on pre trading expenditure and treat it as incurred on the first day of trading

Harriet can claim capital allowances for the pizza oven and dining tables and chairs as they qualify as plant and machinery.

3) As harriet purchased the computer privately, the value attributed to capital allowances is equal to the market value. As Harriet is deemed to be connected to the sole trade AIA will also not be available.

4) providing private medical insurance to employees is an allowable cost to Harriet. However, class1A NIC will be due at 13.8% on the cost of providing the benefit. $1,000 \times 13.8\% = 138$.

Loss options.

S.64 current year claim.

In the 2024/25 tax year, Harriet received a salary of £46,000.
If she makes a current year claim against other income she can offset the loss against all of the £46,000 as it is less than the 50k restriction. The loss is all or nothing so she will lose her personal allowance in the process.

The S.64 loss must be claimed by 31 January 2027

This will save total tax of £6,686 as she is a basic rate taxpayer.

S.64 carry back claim

Harriet can also choose to elect a S.64 carryback claim and offset it against £50,000 of the total income from 2023/24.

Non saving income which exceeds the upper earnings limit of £125,140 is taxed at 45%

This is because her total adjusted income was 197,500 and the restriction is the greater of 50,000 and 25% of adjusted net income.

$$197,500 \times 25\% = 49,375.$$

This will save tax of $50,000 \times 45\% = 22,500$.

S.72 - opening year rules

As harriet began trading 01 June 2024 up to 31 March 2025, she can offset the loss up to the previous three tax years if she makes a loss in the first 4 years of trading. The loss is subject to the same restrcitions as S.64 and is offset if a LIFO basis.

Harriet will offset the loss against 2021/22 first and then 2022/23.

$$2021/22 = 50,000 \times 45\% = 22,500.$$

$$2022/23 = 26,535 \times 45\% = 11,941.$$

Carry forward losses

Any unused losses can be offset against future profits of the same trade.

The carry forward losses do not have any numerical restriction as long as they are offset against profits of the same trade.

Loss memo

tax adjusted loss = (76,535)

$$2021/22 = 50,000 \times 45\% = 22,500$$

$$2022/23 = 26,535 \times 45\% = 11,941$$

Ih Harriet decides to offset the loss against earlier years, she will be liable for class 4 national insurance at 6% on profits between 12,570 and 50,270. profits up to the primary threshold of £12,570 are taxed at 0% for class 4 national insurance.

Harriets class 4 national insurance liability will be

$$12,570 \times 0\%$$

$$37,700 \times 6\% = 2,262$$

$$11,730 \times 2\% = 235$$

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

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

Answer-to-Question- _3_

Maxine's share disposal

Maxine's disposal of her shares in Grabel Ltd will be subject to capital gains tax.

The taxable gain is as follows : -

Proceeds = 800,000

Base cost = 30,000

Gain = 770,000

CGT 10% = 77,000

Maxine's disposal of the shares will qualify for business asset disposal relief. BADR reduces the capital gains tax payable to 10% up to a lifetime limit of £1M.

She qualifies under the following conditions: -

The company qualifies as trading

She owned the shares for more than 2 years as she subscribed for the shares in 2002.

She is an employee of the company and she owns more than 5% of the ordinary share capital as she owns 30%.

Business asset disposal relief must be claimed by 31 January 2027

Time spent

Maxine does spend 60% of her time working for the business.

Reduced working hours April 2022

Trading status

The company qualifies as a trading company because the value of the investment is 15% of the total assets and the revenue generated is 12% of the total revenue.

As the non trading activities are less than the HMRC maximum of 20% the company will qualify as trading.

total assets = £8,000,000

investment = 1,200,000
% = 15%
Investment revenue = 12% of total revenue

Factory disposal
When Maxine disposes of the factory it will be subject to capital gains.

The gain will be as follows : -
proceeds = 375,000
cost = 128,000
Gain = 247,000

As Maxine disposed of her shares in October 2024 and disposed of the factory within 12 months, the factory will qualify as an associated disposal for business asset disposal relief.

However, BADR is restricted as she charged 70% of the market rent up until April 2022 and 90% from April 2022.

Owned the factory from 2005 - 2008 - no restriction
April 2008 - April 2022 - 70%
April 2022 - April 2025 - 90%

BADR lifetime allowance = £1,000,000
Claimed BADR = 165,000
Disposal of shares = 770,000
remaining = 65,000

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

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

Answer-to-Question- _4_

11 Basic rate

9 higher rate

20 total

relocation of director

Relocation expenses of up to £8,000 are an exempt benefit. However, as the relocation expenses were £10,000 a benefit in kind will arise on the total of £10,000.

Wedding Gift

As the gift exceeded the trivial benefit limit of £50.00 a benefit in kind will arise equalling the cost to the employer. Therefore, the value of the benefit arising on the wedding gift will be inclusive of VAT totalling £300.00.

Staff Vouchers

The staff vouchers will qualify as trivial benefits as they are not redeemable in cash, cost £40.00 which is less than the £50.00 limit and they are not given as rewards or exchange for services.

Staff event

As the staff event exceeded the £250.00 per head threshold the total amount will be a taxable benefit for the employee.

total cost = £9,000

Staff members = 20

Cost per staff member = £450.00

As the relocation expenses, wedding gift and staff party are unusual and irregular benefits they will qualify for a PAYE settlement agreement.

The company must register for a PAYE settlement with HMRC before 5 October 2025 and the company must pay the PAYE and class1B national insurance of 13.8% by 19 October 2025.

Total benefits

calculation of PSA

Higher rate

Relocation - benefits = 10,000

Staff party = 4,050

Total = 14,050

Grossed up for basic rate tax = $14,050 / 0.6 = 23,417$

Basic rate

wedding gift = 300

Staff party = 4,950

total = 5,250

Grossed up for higher rate tax = $5,250 / 0.8 = 6,563$

Total Higher rate = 23,417

Total Basic rate = 6,563

Total benefits provided = 29,980

Class1B NIC @ 13.8% = 4,137

PAYE higher rate = 9,367

PAYE Basic rate = 1,313

Total PAYE and class 1B NIC due = 14,817

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

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

Answer-to-Question- _5_

Ginos Ltd - Brought forward losses = 55,000

A change in ownership is defined as a single person or entity either purchasing more than 50% or one or more connected people having more than 50% control.

When Lucy acquired her shares in June 2022 as she purchased 44% which is less than the threshold of 50%, it was not deemed to be a change in ownership.

However, when Lucy and her husband purchased 5% each which resulted in them owning a combined 54%, this resulted in a change in ownership as they now control more than 50% and they are connected people.

When a change in ownership occurs, if there is also a major change in the nature or conduct of trade, either 3 years prior to the change and up to 5 years after, the utilisation of brought forward losses can be blocked.

Major change in nature or conduct of trade

a major change in nature or conduct of trade is defined as the following as per CTA 2009.

a change in the property dealt, services or facilities provided or a change in the customer base or markets.

HMRC accepts that an increase in efficiency, keeping pace with technology or developing management techniques, withdrawing unprofitable products and replacing them with similar more profitable products do not equate to a major change in nature or conduct of trade.

When Ginos Ltd removed unprofitable items and made redundancies to increase efficiency they would not deem that a major change in nature or conduct of trade happened.

However, when they closed the takeaway and opened a winebar, HMRC would deem that to be a major change in nature or conduct of trade. This is because they are changing their customer base and the products and services they deliver.

Therefore, they can utilise the profits brought forward before the change in ownership occurred.

2)

Losses before the change in ownership can be utilised in full.

Profits from 1 April 2024 - 31 May 2024 = 15,000
Brought forward losses = (15,000)

Loiss memo
Brought forward losses = (55,000)
Up to May 2024 = 15,000

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

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

Answer-to-Question- _6_

Commenct business - 1 June 2025

Research and development

If Peter decides to set up a limited company he could qualify for research and development credit. R&D credits are not available to sole traders.

His company will also qualify as small as it is a new company and under the thresholds

This is because he wants to develop AI based development which will further science and technology.

Employee salaries, employers pension contributions and employers NIC are included in the qualifying R&D for staff costs. However, it is pro rata based on the time spent on the qualifying activities.

Contracted R&D

the default treatment for contracted R&D is 65% of the total cost.

Cost = £10,000 x 65% = 6,500

Under RDEC, the amount of corporation tax credit is equal to 20% of the qualifying R&D expenditure. It is then added to total profits but deducted as a corporation tax reducer.

R&D

Employee / Activity	Salary	ER pens	ERS NIC	Total	Claim 50%
Peter	12,570	NIL	479	13,049	6,525
Ellen	47,600	3,620	5,313	56,533	28,267
Contracted R&D					6,500

total					41,292

ER NI

Peter - $12,570 - 9,100 = 3,470 \times 13.8\% = 479$

Ellen - $47,600 - 9,100 = 38,500 \times 13.8\% = 5,313$

AI Based investment software

Ellen salary costs

data scientist = $4,760 \times 10 = 47,600$

ER contributions = $362 \times 10 = 3,620$

50% qualifying R&D

Company

Profits	80,000		
RDEC	8,528		
Salary	(12,570)		
ER NI	(479)		
Net	75,479		
TTP 25%		(18,870)	
Marginal relief		1,993	
RDEC		8,528	
CT payable		(8,349)	
Distribution	69,130		
Net cash			
salary	12,570		
Basic rate 8.75%	37,700	3,299	
Higher rate 33.75%	31,430	10,608	
Total	81,700	13,907	
Net	67,793		

Marginal relief calculation
 $250,000 / 12 \times 10 = 208,333$

$$3/200 \times 208,333 - 75,479 = 132,854$$

Sole trade

Peter will be subject to income tax at 20%, 40% and 45% on profits from his sole trade.
 He will also be subject to class4 NIC at 6% and 2%.

Profit	80,000	Tax liability	
personal allowance	12,570		
Basic rate 20%	37,700	7,540	
Higher rate 40%	29,730	11,982	
Total	80,000	19,432	

national insurance	80,000		
primary threshold	10,475		
up to upper earnings limit 6%	31,412	1,885	
above upper earnings limit 2%	38,113	762	
Total tax and NI		22,079	
Net cash		57,921	

