



The Chartered Tax Adviser Examination

November 2017

The Application and Interaction of Taxes

TIME ALLOWED – 3 ¼ HOURS

- There are five questions on the paper which are:
 - Question 1 Taxation of Individuals, Trusts and Estates
 - Question 2 Taxation of Larger Companies and Groups
 - Question 3 Taxation of Owner-Managed Businesses
 - Question 4 Human Capital Taxes
 - Question 5 VAT and other Indirect Taxes
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You should answer only **ONE** out of the five questions.
- Each question carries 100 marks.
- Each question includes 22 marks specifically allocated for presentation and higher skills including the format of your answer, layout, style and the suitability and relevance of your advice.
- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2016/17 rates and allowances continue to apply for 2017/18 and future years. Candidates referring to actual or pending rates and allowances for 2017/18 and future years will not be penalised.

1. You are a tax manager in a firm of Chartered Tax Advisers. Daniel James, aged 75, is a long-standing personal tax client of the firm and he is both resident and domiciled in the UK.

Daniel is the settlor of the following four trusts:

Daniel James 2001 Trust (the "2001 Trust")

The Briar 2008 Discretionary Trust (the "Briar Trust")

Daniel James 2012 Discretionary Trust No.1 (the "No.1 Trust")

Daniel James 2012 Discretionary Trust No.2 (the "No.2 Trust")

The trustees of each of these trusts are Daniel's two brothers, Herbert and Matthew and his sister Amelia who are all UK resident. The beneficiaries of the trusts are Daniel's two adult daughters, Charlotte Parks and Evie Williams and their minor children (Daniel's grandchildren). Your firm also acts for the trustees, who have written to your tax partner, Jennifer Jones, for advice on their queries. Jennifer has asked you to assist her in responding to the trustees.

Daniel has recently retired as the Managing Director of Bolts UK Ltd, an unquoted trading company which manufactures metal nuts and bolts. The company has no investment activities. Daniel was originally the sole shareholder but 40% of his shares have been transferred to the trustees over the years and a 5% shareholding was transferred to Charlotte in March 2008.

You have also been advised that Herbert, who is now 80, will be retiring as a trustee next week. Daniel has indicated that he would like him to be replaced by Herbert's daughter, Poppy, who has agreed to become a trustee.

You have been provided with the following exhibits:

EXHIBIT A: Extract from your firm's permanent file for Daniel James

EXHIBIT B: Current values of the assets of the Trusts

EXHIBIT C: Letter to Jennifer Jones from Matthew James on behalf of the trustees

EXHIBIT D: Memo from permanent records for the Daniel James 2001 Trust

Continued

1. Continuation

You are required to:

- 1) Prepare a draft report to the trustees responding to the issues they have raised, for review by Jennifer Jones.**
- 2) Prepare notes for a meeting you will have with the trustees to explain the procedures for Poppy's appointment as a trustee.**

Marks will be allocated as follows:

Requirement 1	Capital Gains Tax	(24)
	Inheritance Tax and Trusts	(29)
	Income Tax	(13)
	Other tax issues	(4)
Requirement 2	Law and Ethics	(8)
Presentation and higher skills		(22)
		Total (100)

EXHIBIT A

Extract from your firm's permanent file for Daniel James

Daniel James 2001 Trust (the "2001 Trust")

The 2001 Trust was created on 31 December 2001 and holds 20 shares in Bolts UK Ltd.

Daniel's children, Charlotte and Evie, are entitled to receive the trust income and will continue to do so until they are 50 years old, when the assets will pass to them absolutely (or to the survivor of them in the event that only one of them attains that age). In default of that the trust assets are to be held for their issue in equal shares absolutely.

The trustees' Capital Gains Tax base cost for the 20 shares in Bolts UK Ltd is £150,000.

The Briar 2008 Discretionary Trust (the "Briar Trust")

The Briar Trust was created on 30 March 2008. It is a wholly discretionary trust of income and capital created for the benefit of Daniel's children and grandchildren.

Daniel James transferred £475,000 cash to the trustees on 30 March 2008 and they purchased a rental property, 5 Briar Close, Westville, Berkshire for £450,000 on 31 May 2008. He also transferred 20 shares in Bolts UK Ltd to the trustees on 30 March 2008. This was a transfer of value of £450,000 for Inheritance Tax Purposes, but the trustees' Capital Gains Tax base cost for the shares is only £20,000 as holdover relief was claimed.

Daniel paid the Inheritance Tax of £42,250 on the creation of the trust.

Charlotte is 40 and Evie is 34. Charlotte has been employed by Bolts UK Ltd since she left university and has been a director of the company for the last five years. Evie, who has never worked for Bolts UK Ltd, is a partner in a local veterinary practice. She had lived in the UK until 3 March 2015 when she took a career break and moved abroad with her family, as her husband was seconded overseas by his employer. The family have not returned to the UK for any visits

Continued

1. Continuation

since they left, but they will return permanently on 10 March 2019 when the secondment ends. Evie plans to return to her veterinary practice soon after her return.

Daniel James wrote a 'Letter of Wishes' to the trustees of the Briar Trust on 1 June 2008 expressing his wish that the rental property should be held for the benefit of his future grandchildren. He also stated that he wanted the 20 shares in Bolts UK Ltd to be held in trust for his two daughters in equal shares.

The Daniel James 2012 Discretionary Trust No.1 (the "No.1 Trust")

The No.1 Trust was created on 1 July 2012. It is a wholly discretionary trust of income and capital created for the benefit of Daniel's children and grandchildren. The Trust was funded by cash gifts made out of Daniel's surplus income as follows:

	£
01/07/2012	81,250
10/12/2013	81,250
01/12/2014	81,250
28/12/2015	81,250

In a letter dated 14 January 2016, HM Revenue & Customs agreed that the Inheritance Tax normal expenditure out of income exemption is applicable in respect of the gifts made into the Trust by Daniel between 1 July 2012 and 28 December 2015. The trustees have been advised of the availability of the exemption and require no further advice on this matter.

The Daniel James 2012 Discretionary Trust No.2 (the "No.2 Trust")

The No.2 Trust was created on 2 July 2012. It is a wholly discretionary trust of income and capital created for the benefit of Daniel's children and grandchildren. The Trust was funded by cash gifts made out of Daniel's surplus income as follows:

	£
02/07/2012	81,250
10/12/2013	81,250
01/12/2014	81,250
28/12/2015	81,250

In a letter dated 14 January 2016, HM Revenue & Customs agreed that the Inheritance Tax normal expenditure out of income exemption is applicable in respect of the gifts made into the Trust by Daniel between 2 July 2012 and 28 December 2015. The trustees have been advised of the availability of the exemption and require no further advice on this matter.

Other gifts made by Daniel James

<u>Date of gift</u>	<u>Transferee</u>	<u>Amount / Asset</u>	<u>Other information</u>
31/03/2008	Charlotte Parks	Five shares in Bolts UK Ltd	Holding represents 5% of the ordinary share capital and gives 5% of the voting rights in the company.

Terms of engagement

The firm's engagement letter dated 8 August 2016 covers tax advisory projects for the trustees of all four trusts.

Continued

1. Continuation

Tax Pools at 5 April 2017

<u>Trust</u>	<u>Tax Pool</u> £	<u>Other information</u>
Briar Trust	28,375	Briar Trust accounts show that the trust has £60,000 undistributed income that has built up since the trust was created. £32,000 of this relates to the five-year period ended 30 March 2013.
No.1 Trust	2,022	Tax pool will increase to approximately £6,250 by the end of 2017/18 if no income distributions are paid.
No.2 Trust	800	

EXHIBIT B

Current values of the assets of the Trusts

<u>Name of Trust</u>	<u>Assets Held</u>	<u>Value on 31 October 2017</u> £
2001 Trust	20 shares in Bolts UK Ltd	2,500,000
Briar Trust	20 shares in Bolts UK Ltd 5 Briar Close, Westville Trust bank account	2,500,000 575,000 21,500
No.1 Trust	AIM listed shares Quoted share portfolio Portfolio cash account Trust bank account	201,320 187,750 6,450 5,100
No.2 Trust	Trust bank account	331,500

EXHIBIT C

Letter to Jennifer Jones from Matthew James on behalf of the trustees

Jennifer Jones, Tax Partner
ABC Chartered Tax Advisers
50 Oak Lane, Westville
Berkshire

Matthew James
(On behalf of the trustees)
West House
Westville
Berkshire

1 November 2017

Dear Jennifer

The Daniel James Trusts

Herbert, Amelia and I met today to discuss Daniel's four trusts as we have some queries that we need your advice on.

The first matter relates to the shares in Bolts UK Ltd. The trustees have decided to transfer 20 shares in the company (that is 10 shares each) to Charlotte and Evie. As you are aware, both the 2001 Trust and the Briar Trust each hold 20 shares in Bolts UK Ltd, but we think that it is

1. Continuation

the right time to end the 2001 Trust as it now seems unreasonable that Charlotte and Evie should have to wait until they are 50 years old to receive the Trust assets. Amelia recalls some sort of issue relating to the transfer of assets from the 2001 Trust which came up years ago but she cannot remember the exact details. No doubt you will advise us if there are any problems relating to a transfer of shares from the 2001 Trust.

The trustees would also be prepared to consider a transfer of 20 shares in Bolts UK Ltd to Charlotte and Evie from the Briar Trust instead of the 2001 Trust, but only if there are tax benefits and we would not want to make any transfers outside of Daniel's original intentions for the Briar Trust assets as set out in his Letter of Wishes of 1 June 2008. Please could you explain the tax implications and any tax reliefs available for both options? We understand from the company accountant that the current value of 20 shares in Bolts UK Ltd is now £2.5 million.

We would also appreciate your advice on a different matter relating to the Briar Trust's rental property. There has recently been a garden boundary dispute with a neighbour which has ended in the hands of lawyers. The lawyer's fees are £10,500 and Charlotte has told us that she wants to pay this because it was her who raised the boundary issue with the neighbour in the first place. I assume there will not be any problem if she does this?

As you know, a little over four years after setting up the Briar Trust, Daniel commenced making gifts out of his surplus income on an annual basis. These gifts were made to two new discretionary trusts established for the benefit of Daniel's children and grandchildren called the Daniel James 2012 Discretionary Trust No.1 (the "No.1 Trust") and the Daniel James 2012 Discretionary Trust No.2 (the "No.2 Trust").

The trusts were created on consecutive days in July 2012 and Daniel continued paying regular gifts out of income to the trustees of the No.1 and No.2 Trusts annually until December 2015. I understand that you have all the details as your firm obtained agreement from HM Revenue & Customs that an Inheritance Tax exemption is available in relation to the gifts.

The funds from the No.1 Trust were invested in a quoted share portfolio and qualifying AIM listed shareholdings on 5 January 2016.

The No.2 Trust fund has been held in a high interest deposit account to date as our offer on a rental property in January 2016 fell through. Since then we have been waiting for another suitable property to come onto the market and we have recently been given details of a promising looking house in Westville for £315,000. We are unsure how much Stamp Duty Land Tax would become payable on this purchase and it would be helpful if you could confirm this for us.

No income has been paid to any of the beneficiaries from the discretionary trusts to date, but Charlotte's daughter, Ellie, has just started nursery and we would like Ellie to benefit from £10,000 income annually from one of the trusts to help towards the fees. The trustees propose to make the first payment at the end of the month but need some guidance from you on the tax implications and any other suggestions in relation to paying income distributions to the grandchildren in the future. Please would you also confirm if there is any paperwork that needs to be completed to show that the distribution has been made?

Finally, we know that we are shortly approaching the tenth anniversary of the Briar Trust and your firm has already prepared calculations of the estimated Inheritance Tax liability that will become payable on this event. We have no plans to sell or alter the assets of the Briar Trust before 30 March 2018, but is there anything else that we can do to reduce the liability? We do not need any additional calculations at the moment, just some suggestions would be helpful. We were also wondering if the anniversary charges for the No.1 and No.2 Trusts will be calculated in the same way as the Briar Trust. Again, we do not need any detailed calculations at the present time, just an explanation and details of any tax reliefs available.

1. Continuation

We will be in contact soon to arrange a meeting for you to meet Herbert's daughter, Poppy, who has agreed to take over as trustee.

We look forward to hearing back from you shortly regarding the above.

Yours sincerely

Matthew James

EXHIBIT D

Memo from permanent records for the Daniel James 2001 Trust

To: Bill Peters, Tax Partner
From: Jennifer Jones, Senior Tax Manager
Date: 12 September 2004
File: Daniel James 2001 Trust (Permanent File)

I received a telephone call today from Amelia Clarke, one of the trustees of the above trust.

Amelia's eldest niece Charlotte has been working for her father's business, Bolts UK Ltd for several years since she graduated from university. Amelia thinks it would be a nice idea to transfer some of the company shares to Charlotte for her birthday, subject to the other trustees agreeing to this. She asked me to check if this could be done.

I reviewed the trust deed and noted that it contained no express power of advancement and no clauses that allow the trustees to vary the terms of the settlement. I called Amelia back to explain what I had found and the implications.

She told me this did not surprise her because her brother, Daniel, had been a company lawyer many years ago and drafted the trust deed himself. She also said she had run her idea past the other trustees, Matthew and Herbert, but they thought Charlotte was too young to receive capital from the trust at the moment, so the trust will remain as it is for now.

J Jones – 12/09/2004

2. You are Joanna Graves, a newly qualified tax manager at SBG Lovell LLP, a firm of accountants. Rainbow plc, a long-term unlisted client with an accounting year-end of 31 March, has recently appointed a new Finance Director, Adam McKenzie, whose remit is to progress a significant restructuring of the group. Your tax partner, John Williams, has received an email (**EXHIBIT A**) from Adam.

John has asked you to prepare a draft report for his review which responds to the matters raised in Adam's email.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Adam McKenzie to John Williams

EXHIBIT B: Extract from Group Structure Diagram

EXHIBIT C: Details of the assets of Kentucky Ltd and Maine Ltd

You are required to produce a draft report that can be provided to Adam covering:

- 1) **The tax implications for the Rainbow group of companies of the planned transfer of management of Kentucky Ltd.**
- 2) **The tax implications of the disposal of either the shares or the assets of Maine Ltd and recommendations as to the timing of this disposal.**
- 3) **The tax status of key individuals and opportunities for the establishment of a share scheme.**

You should assume that:

The RPI for November 2017 is 261.1; and

Ruritania is a non-EU country with a Double Taxation Agreement with the UK that follows the OECD model.

Marks will be allocated as follows:

Requirement 1	(29)
Requirement 2	(28)
Requirement 3	(21)
Presentation and higher skills	(22)
	Total (100)

Continued

2. Continuation

EXHIBIT A

Email from Adam McKenzie to John Williams

To: John Williams
From: Adam McKenzie
Date: 2 November 2017
Subject: Tax implications of possible restructuring

John

As I explained when we met last week, we are anticipating significant restructuring of our business over the coming months to allow us to focus on the key areas of the business because it has become too diversified over recent years.

At present we are just focusing on the Kentucky Ltd subgroup. The restructuring proposals are due to be presented to the Board next month and we would like to include details of the tax implications of these proposals.

Kentucky Ltd

Kentucky Ltd, a wholly owned subsidiary of Rainbow plc, was incorporated in Ruritania, but has always been treated as UK resident for tax purposes as all Board meetings and other management functions have taken place in the group's head office in London.

As well as owning all the shares of Maine Ltd (see below), Kentucky Ltd manufactures and sells ice cream machinery, a business that started in June 2002. Following recent changes in the market, the entire business is now conducted in Ruritania. Kentucky Ltd pays tax on its profits in Ruritania at the local tax rate of 16%.

The Board of Rainbow plc has already concluded that operational management of the ice cream machinery business from London is ineffective due to the lack of knowledge of local market conditions. A decision has been made to transfer all operational and strategic management to Ruritania, which will include appointing new Board members who are resident in Ruritania. Kentucky Ltd will still be required to provide detailed reporting to Rainbow plc.

We assume that, as a result of the change in the control structure, Kentucky Ltd will cease to be liable to UK Corporation Tax. Please confirm this is the case and let me know if there are any administrative issues we need to be aware of.

As this business is not considered core to the Rainbow Group, Rainbow plc are also considering fully divesting the Ruritanian business within the next three years. Such a disposal could either be of the trade and assets or of the shares in Kentucky, but in either case, it is likely to be to the Board members of Kentucky Ltd who are resident in Ruritania.

Maine Ltd

Maine Ltd currently owns three investment properties (see **EXHIBIT C**) and as part of the group restructuring, either Kentucky Ltd will sell the shares in Maine Ltd or Maine Ltd will sell its properties to a third party. We would like to complete the disposals within 12 months.

We have not yet decided whether or not to proceed with this disposal prior to the transfer of operational and strategic management of Kentucky Ltd to Ruritania explained above. We have been advised that if the shares in Maine Ltd are sold by Kentucky Ltd when Kentucky Ltd is UK tax resident, no Ruritanian tax would be payable on the disposal. If, however, Kentucky Ltd were to be Ruritania tax-resident at the time of sale, Ruritanian tax would be chargeable on the accounting gain at 16%. No Ruritanian tax would arise on the sale of the properties by Maine Ltd, nor on any dividends payable by Maine Ltd to Kentucky Ltd.

Continued

2. Continuation

A 5% withholding tax would be levied by the Ruritanian authorities on profits extracted by way of dividends paid by Kentucky Ltd to Rainbow plc regardless of the tax residence of Kentucky Ltd at the time of payment.

Our advisers have indicated that a purchaser might be prepared to pay £7.8 million for the shares (subject to due diligence) or £7.7 million for the properties split as follows: £2 million for the Birmingham property; £2.2 million for the Leeds property; and £3.5 million for the London property.

Employment matters

We are aware that the proposed restructuring, together with future plans for further rationalisation, will inevitably result in significant changes in our workforce. In particular, the transfer of the management function of Kentucky Ltd to Ruritania and the sale of the property investment business may mean that we need to reduce the number of jobs in the UK where those roles effectively transfer offshore or to a third party. Some of these employees have useful skills and there may be other opportunities for them to provide services to remaining group companies. It has been suggested that some could be engaged as consultants going forward. We would like to understand the legal and tax distinctions between employees and self-employed consultants.

We are concerned that the changes within the group could have a demotivating impact on the remaining 200 staff in the group and so we are considering the introduction of a share option scheme to motivate and retain key employees. We would therefore like to understand the alternatives available.

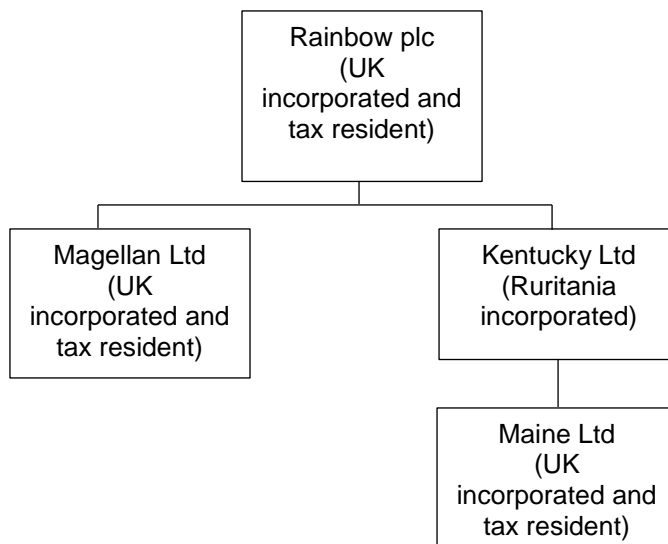
Thanks for your assistance with this. I look forward to hearing from you

Regards

Adam

EXHIBIT B

Extract from Group Structure Diagram



All entities are 100% owned by their parent company.

The two founders of the company each hold 25% of the share capital in Rainbow plc, with the other 50% held by a number of individuals, none of whom individually own more than 5% of the share capital.

Continued

2. Continuation

EXHIBIT C

Details of the assets of Kentucky Ltd and Maine Ltd

Assets of Kentucky Ltd

<u>Asset</u>	<u>Date of Purchase</u>	<u>Cost</u>	<u>Estimated Market Value on 31 December 2017</u>
		£	£
100% of share capital of Maine Ltd	January 2012	6,000,000	7,800,000
Factory	June 2002	200,000	400,000
Warehouse	January 2005	350,000	450,000
Fixed plant and machinery	May 2013	100,000	150,000
Goodwill	Internally generated	-	750,000
Trading stock	Various	200,000	300,000

All of the above assets, other than the share capital of Maine Ltd, are located in Ruritania.

Assets of Maine Ltd

Maine Ltd owns properties in Birmingham, Leeds and London.

The properties in Birmingham and Leeds were purchased by Maine Ltd in September 2012 from Magellan Ltd, a group company. Magellan Ltd constructed the properties as part of its trade. The construction costs and transfer prices are detailed below:

	<u>Birmingham Property</u>	<u>Leeds Property</u>
	£'000	£'000
Construction cost	1,200	1,400
Transfer price	1,260	1,470
Market value at date of purchase	1,350	1,600

The London property was purchased by Maine Ltd from Rainbow plc in July 2015 for £3 million, its market value at that time. It was previously used as the group's head office, having been purchased by Rainbow plc in December 2004 for £1.5 million.

3. Oliver Post is a partner at the firm of Chartered Tax Advisers where you are employed as a junior manager.

Oliver has recently received a letter (**EXHIBIT A**) from his client Kevin Collins concerning the two businesses he runs with his wife Lisa. Kevin and Lisa are looking to retire over the next five years and are keen to begin the process of giving their children, Nicola and Robert, ownership of these businesses. Nicola and Robert are both currently employed in these businesses. They are also looking for advice regarding the potential purchase of a further business and the overall structure of their businesses.

After a brief telephone call between Oliver and Kevin, a meeting has been arranged and it has been agreed that a report is to be prepared, in advance of that meeting, dealing with the various issues. You have been asked to prepare this report for Oliver. You have obtained relevant background information from the files to assist you (**EXHIBIT B**) and information relevant to the purchase of Johnson Framing Ltd (**EXHIBIT C**), the company which owns the business and property next door.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Kevin Collins to Oliver Post

EXHIBIT B: Background information from files

EXHIBIT C: Information relevant to the purchase of Johnson Framing Ltd

You are required to draft a report for Oliver Post to send to Kevin Collins dealing with the tax, National Insurance and any other relevant issues arising from Kevin's letter.

Marks will be allocated as follows:

Introduction of Nicola and Robert into capital ownership and related issues	(30)
Matters relating to Johnson Framing Ltd	(24)
Overall structure of the various businesses	(24)
Presentation and higher skills	(22)
	Total (100)

Continued

3. Continuation

EXHIBIT A

Letter from Kevin Collins to Oliver Post

Mr O Post
Partner
Chartered Tax Advisers LLP
1 Balance Street
Casttown
PR1 LO2

Mr K Collins
Collins Gifts
24 Sheep Street
Casttown
PR2 L28

26 October 2017

Dear Oliver

As you are aware we currently operate two businesses: Collins Gifts, which is a partnership between Lisa and me, and Collins Bakery Ltd.

Lisa and I are both 60 next year and want to retire from both businesses in stages over the next five years and give our two children, Nicola and Robert, control and ownership of our businesses. Nicola is employed full-time by Collins Gifts managing the gift shop and Robert is employed full-time as the manager of Collins Bakery Ltd. We feel that now is the right time to start this process and wish to give each of them a 20% interest in the respective business in which they are employed, subject to your comments and advice.

Nicola is single but is engaged to be married next year to Clive. He seems a decent chap and they seem very happy together but we don't really know a great deal about his financial affairs or what the future may hold. We therefore want to ensure that, as far as possible, the gift shop business and any other assets we give Nicola are financially protected. Your advice should therefore deal with business and asset protection issues.

Robert on the other hand is older and has been married to Gemma for over 15 years and we have no concerns regarding transfers to him. We are in fact happy to share the transfers between Robert and Gemma if it would help. They do however have two young children, Jacob and Issy, who are both at private school and we would appreciate any advice as to how we may be able to help with these fees in a tax efficient manner as part of our plans.

I do not require any detailed calculations at this stage although illustrative figures from a Capital Gains Tax perspective would be helpful. We have previously discussed the Income Tax implications of making Nicola a partner and I do not therefore need your advice in respect of any such issues.

Nicola does in fact have some great ideas to grow Collins Gifts and she has discovered that the shop next door and its picture framing business will shortly be put on the market for sale. She is very keen for us to make an offer to buy it in order to expand Collins Gifts. We have no intention of becoming picture framers but would join up the two premises by making an opening in the connecting wall between them at minimal cost. We would close the picture framing business and expand our gift range as we would have nearly doubled the available floor space.

The picture framing business and property are in fact operated and owned by a limited company, Johnson Framing Ltd. I have had an initial conversation with the owner and have been provided with information relevant to the purchase (**EXHIBIT C**). I would be grateful for your advice as to the tax and any legal issues to consider should we decide to make an offer to purchase the business and property. This advice should deal with the method of purchase, shares or assets, who should make the purchase, the partnership, a new limited company or Collins Bakery Ltd and also the financing of any purchase. We would need to take out a loan to fund the purchase if we did proceed but are happy for this to be a personal loan secured against the property or by any alternative method you may advise. We would however wish any

3. Continuation

loan to be paid back as quickly as possible out of future profits. We have been advised that we can't borrow against the gift shop owned by the partnership as the bank has told us that this would not be permitted due to the existing level of partnership borrowings.

Robert, thanks to all his hard work, has helped the bakery get through some very difficult times and made the bakery profitable again although it will be a few years more before we recoup all the losses that it has made. The restaurant that we opened last year and the profits that it is making have also been a great help. Giving him a capital interest in the business will be a first step in rewarding all his hard work. As noted above, however, we want to help all of the family. I am still not sure if this will include a transfer of part ownership of the property used by Collins Bakery Ltd that Lisa and I own personally and would appreciate any advice on this.

Finally, we are always keen that our costs and bookkeeping needs are kept as low and as simple as possible and feel that now may be an opportune time to bring together our business interests into one company. I would be grateful if you could please advise on the implications of transferring Collins Gifts into the existing limited company, Collins Bakery Ltd and thereby having both businesses accounted for in the one company. We would of course not take this forward if you feel that there are greater benefits in remaining as we are now with a partnership and a separate company.

This advice will of course need to reflect my primary intention of giving our two children a capital interest as above and also the possible purchase of next door. For the avoidance of doubt I do not want you to advise either on winding up the existing limited company nor any alternative method of merging the businesses.

I look forward to receiving your advice in respect of the issues noted above and if relevant how they may interact. It would be good to arrange a meeting as soon as possible to discuss them and make the capital transfers as soon as possible. If it was decided to transfer Collins Gifts into the limited company we would not want to do this before the end of the current accounting period. You do have full particulars of our business structure and history but please let me know if you need anything else.

Yours sincerely

Kevin Collins

Continued

3. Continuation

EXHIBIT B

Background information from files

Kevin Collins and his wife Lisa have two businesses.

Collins Gifts

This is a small gift shop business operated in partnership by Kevin and Lisa Collins with annual turnover of around £80,000 and annual trading profits of approximately £30,000 after paying a salary of £25,000 to Nicola. Profits are shared on a 50:50 basis but no partnership agreement exists. The business, which is not VAT registered, and the trading premises at 24 Sheep Street were purchased on 1 April 2003. Above the gift shop is a small residential flat which is let to an unconnected third party for £750 per month. Neither the above turnover figure nor profit figure include this income.

The partnership has always prepared accounts to 31 March each year and the summary balance sheet at 31 March 2017 was as follows:

	£	Notes
Goodwill – at cost	40,000	1
24 Sheep Street – at cost	180,000	2
Fixtures and fittings – at net book value	10,000	3
Stock – at cost	12,500	4
Debtors	2,500	
Creditors	(5,000)	
Bank loans	(100,000)	
Net assets	<u>£140,000</u>	
Represented by partners' current accounts	<u>£140,000</u>	

Notes

- 1) The goodwill is currently valued at £80,000.
- 2) The property is currently valued at £300,000. It is estimated that an approximate allocation of both the cost price and the current market value is 25% to the small upstairs flat and 75% to the downstairs gift shop.
- 3) The tax written down value of the fixtures is currently £5,000.
- 4) The stock has a resale value of £20,000.

Collins Bakery Ltd

This is a small bakers selling bread, cakes, pies and similar products. It has also recently opened a small restaurant in the same premises selling hot lunches and light snacks. The company is VAT registered and has an accounting reference date of 31 March.

The building from which the company trades is owned jointly by Kevin and Lisa Collins and was purchased in October 1997 for £140,000. It has always been let at a full market rent to Collins Bakery Ltd and has a current market value of £220,000.

The company has issued share capital of 100 Ordinary £1 shares with Kevin owning 60 shares and Lisa 40. The shares were acquired in 1995 for £100,000. The annual turnover is in the region of £150,000 and annual profits are in the region of £60,000, split equally between the bakery and restaurant, after paying a salary to Robert of £35,000 and rent to Kevin and Lisa of £20,000. In addition, Kevin and Lisa take a small salary of £8,000 each and extract the balance of any available profits by way of dividend.

The bakery had trading losses carried forward at 31 March 2017 of £50,000.

Continued

3. Continuation

EXHIBIT C

Information relevant to the purchase of Johnson Framing Ltd

Johnson Framing Ltd is a VAT registered company running a picture framing business from premises in Sheep Street.

Latest balance sheet of company

	£
Property – at cost	100,000
Fixtures and fittings – at net book value	15,000
Stock at cost	20,000
Debtors	5,000
Bank loans and overdrafts	(50,000)
Directors' loan accounts	(40,000)
Other creditors	<u>(10,000)</u>
Net assets	<u>£40,000</u>

The property, which is used entirely for the purposes of the business, was purchased in 2002 and has recently been independently valued at £275,000.

The fixtures and fittings have a current value in the region of £5,000.

Annual profits are approximately £80,000 after directors' salaries of £15,000.

The entire issued share capital is being offered for sale for £380,000 as part of which the directors' loan accounts would be written off and will not therefore need to be repaid.

The vendors would consider an asset sale for the property and fixtures at value, stock at cost and goodwill for total consideration of £430,000.

4. You are Ann Brown, an assistant manager specialising in Human Capital Taxes in a firm of Chartered Tax Advisers. Your firm has recently won a new corporate client, Fresh Air Ltd, which is a UK registered and tax resident company. Its business is the provision of environmental consultancy, which until recently was only conducted within the UK.

On 1 October 2017 Fresh Air Ltd acquired 100% of the shares of a French competitor, Air Frais SARL, as part of their European expansion strategy.

Your senior manager, Charles Dunn has had a meeting with Karen Jackson, the Finance Director of Fresh Air Ltd and emailed you (**EXHIBIT A**) to ask you to prepare a draft report for his review.

The following exhibits are provided to assist you:

EXHIBIT A: Email from your senior manager

EXHIBIT B: Email from HR to Karen Jackson regarding Jennifer Green

EXHIBIT C: Email from the Head of Finance of Air Frais SARL

EXHIBIT D: HR email re plans for the integration of Air Frais SARL staff

EXHIBIT E: Extracts from UK-France Double Tax Treaty

You are required to:

- 1) **Prepare a draft report to Karen Jackson of Fresh Air Ltd covering the Income Tax and National Insurance implications of the issues raised in her meeting with your senior manager.**
- 2) **Prepare an email to your senior manager highlighting any other tax or ethical matters which you feel are relevant to the situation and the information provided.**

Marks will be allocated as follows

Requirement 1	(61)
Requirement 2	(17)
Presentation and higher skills	(22)
	Total (100)

Continued

4. Continuation

EXHIBIT A

Email from your senior manager

To: Ann Brown
From: Charles Dunn
Subject: Fresh Air Ltd
Date: 7 November 2017

Hi Ann

Now that we have been formally appointed by Fresh Air Ltd, I had an initial meeting with Karen Jackson, the Finance Director, last week.

She explained that Fresh Air Ltd is based in the UK and currently has 50 employees. It does however have a business strategy for the next five years to expand into other European markets. To try to further this objective, Jennifer Green, one of the four company directors, spent much of the last year meeting with prospective clients across Europe.

As a result of her work, in August 2017 Fresh Air Ltd signed a large contract with a French organisation. Work on this contract is due to commence on 1 February 2018 and will be carried out at the client's premises in France. In order to quickly boost their French speaking talent pool Fresh Air Ltd acquired 100% of the shares of a French competitor, Air Frais SARL, on 1 October 2017. Air Frais SARL trades only in France and has its office in Marseille.

Karen has identified two matters where she has specific concerns.

- 1) Jennifer Green will be travelling to France on a regular basis and HR feel she needs a more formal arrangement to deal with her international working arrangements.
- 2) Some of the Air Frais SARL staff will be visiting the UK for the integration launch event and Karen wants to understand whether there are any actions that they should be taking in respect of this.

Karen has provided us with copies of some relevant emails she has received about these two points. She has also asked that we alert her to any other issues she may need to consider. Karen is not very experienced with employment tax issues and has never dealt with any international tax matters before. She has confirmed that Fresh Air Ltd do not have any specific PAYE related agreements with HM Revenue & Customs.

I have agreed with Karen that we will provide her with a report advising her on the Income Tax and National Insurance issues arising from the above and the emails provided by Karen.

I am sure that they will also need some French tax advice. I suggest you refer them to the same firm we used last time we had a client needing advice in France.

Thank you

Charles

Continued

4. Continuation

EXHIBIT B

Email from HR to Karen Jackson regarding Jennifer Green

To: Karen Jackson
From: HR Manager of Fresh Air Ltd
Subject: Jennifer Green's ongoing European travel
Date: 1 November 2017

Hi Karen

Jennifer now expects to be in France for two or three consecutive days a week for at least the next three years so that she can work alongside the Air Frais SARL team on the big contract she won earlier in the year. She will need to be back in the UK for the rest of the week to stay connected with her UK team and at weekends to spend time with her family, who will remain in the UK.

Jennifer's overseas travel started in January 2017. Since then we have been paying her £4,000 a month to cover her travel and accommodation costs as well as any costs incurred entertaining her business contacts. We did not put this through the payroll as it was simply intended to cover her various expenses. If there is any left-over she does not have to refund this to the company. This seemed to be the easiest solution at the time as she was travelling all over Europe but I am feeling a little uncomfortable that we have no visibility on how these monies are spent. I would like us to move to a more formal arrangement and Jennifer is happy with this idea.

I suggest that we offer Jennifer the following travel package on top of her salary (currently £80,000 per annum). If you agree, I suggest we implement this from 1 January 2018.

Travel

One weekly return flight to Marseille, to be reimbursed via the Fresh Air Ltd company expenses system on the provision of a receipt from the travel provider.

Accommodation

A two bedroom apartment which we will rent for her near the Air Frais SARL office in Marseille and which will be made exclusively available to her. We estimate that this will cost around £1,000 per month. We are currently in discussion regarding who should rent the apartment. It will either be Fresh Air Ltd or Jennifer herself, in which case we will include an additional amount in her pay each month to cover the rental payments.

Taxes

Fresh Air Ltd will pay for any necessary tax returns to be prepared in both France and the UK.

Any additional taxes due on travel and accommodation provided by Fresh Air Ltd will be reimbursed to Jennifer in full. Fresh Air Ltd will loan Jennifer the monies to pay any French tax liabilities on her salary until her UK tax filings have been completed.

Please let me have your thoughts as soon as possible so that I can put this into action.

Kind regards

HR Manager

Continued

4. Continuation

EXHIBIT C

Email from the Head of Finance of Air Frais SARL

To: Karen Jackson
From: Jacques Blanc, Head of Finance, Air Frais SARL
Subject: Jennifer Green and French Taxation
Date: 3 November 2017

Dear Karen

Thank you for your email asking whether Jennifer is likely to need to pay tax in France. I am afraid I am not really a tax specialist but I have asked around the team. We think that she will probably be considered non-resident for tax in France.

However, France does still tax non-residents on their French source employment income. The top rate of Income Tax on salary for a non-resident is 20%.

We should probably think about social security too.

Sorry not to be able to help more. Would you like me to find you a French tax adviser?

Regards

Jacques

EXHIBIT D

HR email re plans for the integration of Air Frais SARL staff

To: Karen Jackson
From: HR Manager Fresh Air Ltd
Subject: Integration of Air Frais SARL staff
Date: 1 November 2017

Hi Karen

You asked me to think about the costs of our integration launch event.

The Chief Executive has said he wants to take a full week over the event to give the teams a chance to get to know each other. There are 50 of us from Fresh Air Ltd and 15 from Air Frais SARL.

We have agreed that Air Frais SARL will pay for their staff's travel and accommodation costs but we are going to pick up the bill for the event itself.

We will hold the meetings for the launch event at our offices in London. The celebration dinner will be held at a local restaurant. Our budget for the event is £12,000 plus VAT which we think will break down as follows:

- 1) Daily sandwich lunches for all 65 staff – £2,000.
- 2) Celebration dinner for all 65 staff – £10,000.

Perhaps we could discuss this further?

Kind regards

HR Manager

Continued

4. Continuation

EXHIBIT E

Extracts from UK-France Double Tax Treaty

ARTICLE 4 - RESIDENCE

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof, and any statutory body of that State, subdivision or authority. This term does not include any person who is liable to tax in that State in respect only of income or capital gains from sources in that State.
2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined in accordance with the following rules:
 - a. he shall be deemed to be a resident only of the Contracting State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (centre of vital interests);
 - b. if the Contracting State in which he has his centre of vital interests cannot be determined, or if he does not have a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;
 - c. if he has an habitual abode in both Contracting States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;
 - d. if he is a national of both Contracting States or of neither of them, the competent authorities of the States shall settle the question by mutual agreement.

ARTICLE 6 - INCOME FROM IMMOVABLE PROPERTY

1. Income derived from immovable property (including income from agriculture or forestry) situated in a Contracting State may be taxed in that State.
2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, aircraft and railway vehicles shall not be regarded as immovable property.
3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.
4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise.
5. Where shares or other rights in a company, other legal person, partnership, trust or any similar body give an entitlement to enjoy immovable property situated in a Contracting State and held by that company, other legal person, partnership, trust or similar body, income derived from the direct use, letting, or use in any other form of that entitlement to enjoy, may be taxed in that State notwithstanding the provisions of Article 7.

Continued

4. Continuation

ARTICLE 15 - INCOME FROM EMPLOYMENT

1. Subject to the provisions of Articles 16, 18, 19 and 20, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.
2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:
 - a. the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days within any period of 12 months; and
 - b. the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and
 - c. the remuneration is not borne by a permanent establishment which the employer has in the other State.
3. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship, aircraft or railway vehicle operated in international traffic may be taxed in the Contracting State of which the person operating the ship, aircraft or railway vehicle is a resident.
4. For the purposes of this Article the term "employment" includes in particular the exercise of management or executive functions, other than functions covered by Article 16, in a company subject to French corporation tax.

5. You are a manager in a firm of Chartered Tax Advisers. A Malaysian company, C&K Holdings Sdn Bhd, which already operates successfully in the Malaysian construction industry, intends to expand its business into the construction of commercial and residential property in England. In some cases, it will retain the completed developments as investments to let out. Its solicitors have already incorporated two UK companies, C&K Commercial Ltd and C&K Residential Ltd, which are wholly owned by C&K Holdings Sdn Bhd. In addition, they have established a branch in the UK. The branch and UK subsidiaries are now clients of your firm and client acceptance and money laundering procedures have been carried out.

In advance of trading in the UK, C&K Holdings Sdn Bhd has acquired an option over some development land in the UK, obtained planning permission on it and negotiated a development agreement with a local authority. The option is exercisable by any group company. It has also taken a lease on some office space in the UK but has not yet considered registration for UK VAT.

The partner responsible for the client, Syd Smith, has received a letter (**EXHIBIT A**) from the Chief Executive Officer of C&K Holdings Sdn Bhd asking your firm to advise him on certain aspects of its business operations in the UK.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from C&K Holdings Sdn Bhd Ltd to Syd Smith

EXHIBIT B: Extract from the development agreement with the local authority

EXHIBIT C: Income and expenditure forecast for the C&K companies to 31 December 2020

You are required to prepare a letter for Syd Smith to send to the Chief Executive Officer of C&K Holdings Sdn Bhd which advises on:

- 1) **The VAT and Customs Duty implications of the group's UK business activities.**
- 2) **A suitable structure for the joint venture.**

Marks will be allocated as follows:

Requirement 1	VAT	(51)
	Customs Duties and other taxes	(7)
Requirement 2	VAT	(6)
	Other taxes, and other issues	(14)
Presentation and higher skills		(22)
		Total (100)

Continued

5. Continuation

EXHIBIT A

Letter from C&K Holdings Sdn Bhd to Syd Smith

Syd Smith
Any Tax Advisers
1 Central Place
Anytown
AS1 1AB

C&K Holdings Sdn Bhd
First Street
Anytown
AD12 4FG

1 November 2017

Private & Confidential

Dear Syd

Development Activities in the UK

I am writing, as agreed, with further details in relation to certain aspects of the proposed expansion of our activities into the UK.

In summary, our activities in the UK will be as follows:

C&K Holdings Sdn Bhd – UK Branch

The Malaysian head office will provide computer hardware and software to the UK branch, which will be used by both the UK group companies. The software has been developed in-house in Malaysia and is already used by our operations in Malaysia and so will allow our UK organisation to join our worldwide network. It will not make a recharge within the UK group in respect of any of these transactions.

Through its UK branch, C&K Holdings Sdn Bhd will also provide management services to its subsidiary companies, again without a charge.

C&K Commercial Ltd

C&K Holdings Sdn Bhd has obtained an option, exercisable by any group company, to acquire two adjoining sites for development. Planning permission has been obtained for both sites and as a condition of this it was necessary to enter into a development agreement (**EXHIBIT B**) with the local authority. C&K Commercial Ltd will exercise the option and undertake the development.

The first site is known as "The Office Park" which has some existing offices. We will regenerate the area by refurbishing the existing offices and building some new offices for occupation by large professional services firms together with some associated retail outlets.

The second site is known as "The Financial District". We will construct a suite of offices, which will form a high quality financial concourse for occupation by banks and insurance companies.

C&K Commercial Ltd will use sub-contractors for the construction work. Both sites will be retained as investments once developed and let to occupational tenants.

Initial advice from letting agents is that, unlike The Office Park, charging VAT on rents in The Financial District will be unattractive to prospective tenants.

No VAT will be charged on the acquisition of the site.

Continued

5. Continuation

C&K Residential Ltd

C&K Residential Ltd will develop some new housing for sale to private buyers as a joint venture with a third party, a UK property developer company, AB Land Holdings Ltd.

AB Land Holdings Ltd owns a land bank which it holds for development purposes and has obtained outline planning permission for the construction of houses for sale to private buyers. C&K Residential Ltd will carry out the detailed design and construction services, incurring building and material costs. On completion, AB Land Holdings Ltd will market and sell the houses. Proceeds will be shared according to the market value of the contribution made by each party to the joint venture with each party meeting its own costs.

Advice Required

I need to understand the UK VAT and Customs Duty implications of the various points above and require some advice on the optimum UK VAT registration position for the UK resident entities. I also need some advice concerning a suitable corporate and tax structure for the joint venture.

Funding

Funding for the projects will be provided equally at the outset to the two subsidiaries by way of loans made using cash reserves held by C&K Holdings Sdn Bhd. I have also attached an income forecast (**EXHIBIT C**) which may be useful to you in looking at the VAT position.

I look forward to hearing from you.

Yours sincerely

Ho Luan Dong

Chief Executive Officer
C&K Holdings Sdn Bhd

Continued

5. Continuation

EXHIBIT B

Extract from the development agreement with the local authority

Dated 20 October 2017

ANYTOWN Borough Council

and

C&K Holdings Sdn Bhd

DEVELOPMENT AGREEMENT

Incorporating Section 106 of the Town & Country
Planning Act 1990

AN AGREEMENT BETWEEN

1) **ANYTOWN Borough Council** (“the Council”)

and

2) **C&K Holdings Sdn Bhd** (“the Developer”)

WHEREAS:

- 1) The Council is the Local Planning Authority for the purpose of the Town and Country Planning Act 1990 (“the 1990 Act”) for the area in which the land (hereinafter referred to as “the Site”) described in the Schedule hereto is situate and by whom the Planning Obligations contained in this Deed are enforceable.
- 2) The Developer has submitted the Application to the Council for the development of two office parks (Ref xxx1111/16) and intends to carry out the Development in accordance with the Permission.
- 3) The Council is concerned to ensure that any development of the Site is carried out in such a way as to ensure that appropriate provision will be made in accordance with the Council’s policies within the Council’s area.

IT IS AGREED:

1. This Agreement which contains Planning Obligations for the purposes of Section 106 of the Act and is made pursuant to the said Section 106 with the intent that the covenants hereinafter contained shall be enforceable by the Council acting under the powers contained in Section 106 aforesaid or otherwise against the Owner and all persons deriving title from the Owner.
2. Except as otherwise mentioned this Agreement shall take effect on the date of completion hereof.
3. The Developer hereby enters into this Planning Obligation and covenants with the Council as follows:
 - 3.1 At its own expense to provide the Council with a library and recreational park on a site to be specified by the Council.

Continued

5. Continuation
 - 3.2 To give to the Council not less than five Working Days' notice in writing of the intended date of Commencement of the Development.
4. It is agreed between the parties to this Agreement as follows:
 - 4.1 The provisions of the Interpretation Act 1978 shall apply to the terms hereof as if this Agreement was an Act of Parliament.
 - 4.2 This Agreement shall cease to have effect if the Permission is quashed; revoked; withdrawn; expires prior to the Commencement of Development or otherwise becomes incapable of implementation in its entirety and in such event the Council shall remove the entry in the Local Land Charges Register relating to it.
 - 4.3 Any notice required to be served on any party to this Deed shall be deemed to have been properly served if delivered or sent by the recorded delivery service to the address of the party given in this Deed or to such other address as shall have been notified by that party in writing to all other parties.
 - 4.4 If any clause of this Deed shall be found to be invalid or unenforceable then such invalidity or unenforceability shall not affect the validity or enforceability of the remaining provisions of this Deed.
 - 4.5 Where any matter is required to be agreed by any party then such agreement shall not be unreasonably withheld or delayed.
 - 4.6 The Developer may assign this contract to any of its subsidiary companies, but will remain jointly and severally liable for any obligations under this Agreement.

This Deed is governed by and interpreted in accordance with the law of England and Wales.

Continued

5. Continuation

EXHIBIT C

Income and expenditure forecast for the C&K companies to 31 December 2020

C&K Commercial Ltd

<u>Year to 31 December</u>	<u>2017</u> £000	<u>2018</u> £000	<u>2019</u> £000	<u>2020</u> £000
<u>Receipts</u>				
Cash investment from C&K Holdings Sdn Bhd	7,500			
Rent from Office Park				600
Rent from Financial District				600
	<u>£7,500</u>	<u>£Nil</u>	<u>£Nil</u>	<u>£1,200</u>
<u>Expenditure</u>				
Professional costs	250			
Construction of library/recreational facilities		1,000		
Land cost - Office Park and Financial District		2,000		
Construction of Office Park			1,500	
Construction of Financial District			1,500	
	<u>£250</u>	<u>£3,000</u>	<u>£3,000</u>	<u>£Nil</u>
<u>Cashflow</u>				
Opening balance		7,250	4,250	1,250
Receipts	7,500			1,200
Expenditure	(250)	(3,000)	(3,000)	
Closing balance	<u>£7,250</u>	<u>£4,250</u>	<u>£1,250</u>	<u>£2,450</u>

C&K Residential Ltd

<u>Year to 31 December</u>	<u>2017</u> £000	<u>2018</u> £000	<u>2019</u> £000	<u>2020</u> £000
<u>Receipts</u>				
Cash investment from C&K Holdings Sdn Bhd	7,500			
Share of residential sales proceeds				1,500
	<u>£7,500</u>	<u>£Nil</u>	<u>£Nil</u>	<u>£1,500</u>
<u>Expenditure</u>				
Professional costs	250			
Construction of housing			1,000	
	<u>£250</u>	<u>£Nil</u>	<u>£1,000</u>	<u>£Nil</u>
<u>Cashflow</u>				
Opening balance		7,250	7,250	6,250
Receipts	7,500			1,500
Expenditure	(250)		(1,000)	
Closing balance	<u>£7,250</u>	<u>£7,250</u>	<u>£6,250</u>	<u>£7,750</u>