

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	647	2986	3583
Section 2	957	4247	5118
Section 3	647	3057	3669
Section 4	890	4070	4862
Section 5	921	4141	5005
Section 6	676	3188	3711
Total	4738	21689	25948

Answer-to-Question- _1_

Part 1 - calculate with explanations the plant and machinery allowances available to Boxtransfer Ltd for the year ended 31 December 2024

Boxtransfer ltd (the company)

	£	£	£	£	£	£
	AIA	FYA	MP	SRP		Allowances
b/f			287,000	12,000		
N1 - new machine	133,000					
N2 - building floor	12,000					
N3 - lorry	32,000					
N4 - new packing machine	715,000					
N5 - boiler				(15,000)		
N6 - air conditioning	25,000					
N6 - lifts	14,000					
	931,000		287,000	(3,000)		
balancing charge				2,000		(2,000)
AIA 100%	(931,000)					931,000
WDA 18%			(51,660)			51,660
N7 - super deduction						(32,000)
balancing charge						
c/f	0		235,340	0		

CA allownances						948,660

N1 - the new machinery purchased is a main pool asset eligible for capital allowances (CAs), however this can be allocated to the AIA for 100% relief with no disposal adjustments required. As a hire purchase asset, the entire cost is eligible for CAs on purchase, as such £133,000 is added to the AIA.

N2 - costs incurred in building modifications is included in the cost of the asset and relief is available at the same rate of WDA or based on the pool, and this has been added to the AIA.

N3 - the second hand lorry is not eligible for full expensing relief of 100% allowances as it is a second hand asset. As such, second hand assets for main pool such as the lorry (and special rate pool assets such as integral features) are prioritised for the AIA.

N4 - the new packing machine is eligible for full expensing at 100% as a main pool asset

N5 - boiler acquired is a fixture for CA purposes, as this is not specified as a water boiler being an integral feature, this is considered an integral feature and the disposal value is at the lower of proceeds and cost, being proceeds.

N7 - where an asset is disposed of that claimed a super deduction, a balancing charge arises equal to the disposal proceeds as a clawback of initial relief.

new site purchased

In order to claim CAs on fixtures and fittings the fixed cost requirement and pooling requirement both must be met

the fixed cost requirement is that the fixtures acquired must have a fixed value imposed by virtue of a joint election within 2 years from acquisition, or via a just and reasonable basis by the company, ratified by the first tier tribunal (also within 2 years)

The pooling requirement is that the seller must have pooled each of the items, such that HMRC can determine the cost, even where CAs have not been claimed

As such on the facts, as it is unknown whether the items have been pooled at a minimum CAs would not be available of the fixtures and fittings

N6 - lift, electrical costs acquired is an integral features acquired

fixed partitions are part of the building and not plant and machinery and not eligible for CAs.

part 2 - explain whether structures and building allowances available on new manufacturing site acquisition

Structures and building allowances (SBAs) are available on the purchase of buildings and structures, which are not eligible for capital allowances as plant and machinery.

SBAs excludes the cost of the land, legal fees incurred on acquisition, including stamp duty and taxes and other associated costs, and planning permission costs.

as the the planning site is new and used, the expenditure on construction for SBAs is treated as if it is eligible for SBAs. the rate of relief will be at a 3% per annum on a straight line basis when brought in to use.

As such the cost incurred from acquiring the site is not relevant for SBAs purpose and the expenditure

Whereas if this was a unused site from a developer, the building of £470,000 would have been eligible. the land of £250,000 would not be eligible and legal fees and stamp duty of £34,000

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

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

Answer-to-Question- 2

part 1 - calculate and explain Harriets tax adjusted los for 24/25, and explain most beneficial claim for her loss

1 June 2024 - 31 March 2025 is a 10 month period of account

		£	
net loss		(129,807)	
adjustments			
N1 - lease premium	53,160		
N2 - pizza oven	21,000		
N2 - dining tables and chairs	5,750		
N2 - management software	0		
N3 - computer	1,500		
N4 PMI class 1A	(138)		
N4 - employee PMI	0		
W1 - CAs	(21,914)		
		59,358	
tax adjusted loss		(70,449)	

N1 - lease premium

the lease premium is not itself a deductible expense. relief is provided at (2% x 54,000 x

15-1) being £15,120 over the period of the lease being 180 months $15,120 \times 10/180$ is £840 being allowable in the period

add back £54,000 - $(15,120 \times 10/180) = £53,160$

N2 - set up costs, pre trading expenditure is allowable where this is a trading expense and not capital in nature

a - the pizza oven is the purchase of a capital asset, under the accrual basis, this is not a deductible expense but is eligible for capital allowances (CAs) as if it was bought on the first day of the trade, when brought in to use.

b) the purchase of dining tables and chairs is capital in nature as an expense, but eligible for CAs, however AIA is not available as this is purchased from a connected person being Harriet's mother. As such, CA is at main pool WDAs

c) the purchase of use of software is a trading expense (as this is not website set up costs) this is for the use of management software which has not been developed. As such this is allowable.

N3 - the computer is a capital expense and not allowable the cost included is added back. This will be eligible for AIA however only the business portion of the cost at market value when brought in to use 75% of £600 as a single pool asset. As this is from a connected party, being herself, no AIA is available.

N4 - medical costs of providing the benefit are deductible where these are for employees. As no other tax costs have been accounted for class 1A NICs at 13.8% of £1,000 of £138 are payable by the business, and these are deductible expenses

AIA available $10/12 \times 1,000,000 = £833,333$

	AIA	Main pool	computer (75%)		allowances
N2 pizza oven	21,000				
N2 - dining table + chairs		5,750			
N3 computer			450		

	21,000	5,750	450		
AIA 100%	(21,000)				21,000
WDA 18% x 10/12		(863)			863
N5 - WDA 18% x 10/12, allowance x 75%			(68)		51
c/f	0	4,887	382		
allowances W1					21,914

loss relief

Where Harriet uses the trade loss against net income for sideays relief this is subject to a restriction of relief capped at the higher of £50,000 or 25% of net adsjuted icnome. As Harriets net adsjuted income is not over £200,000 in any of the tax years the £50,000 cap applies for non-trading income.

current year and/or carry back

Harriet can offset the trading loss of £70,449 against net income in the current year and/or under a carry back claim for the preceding tax year (of 23/24)

the current year claim is an all or nothing claim against £46,000. This would relieve all income at 20% and 'waste' the personal allowance. repayment would be £6,686 income tax (against income after the personal allowance).

the carry back claim would relieve £50,000 of income in 23/24 at a rate of 45% for a repayment of income tax of £22,500

claim should be made by 31 January 2026

carry forward loss

she could carry forward the loss, and this could only be utilised against trading income.

this would also not be subject to a restriction on utilisation of the loss and this would be used in full against expected income in the next tax year, also wasting the personal allowance.

early year loss relief

where Harriet has made a loss in any of the first 4 tax years from commencing trade as a sole trader, she can offset the loss against total net income in the 3 preceding tax years on a LIFO basis

the claim must be made by 31 January 2026.

the early year loss relief would be subject to the £50,000 cap. As such, income relieved is £50,000 in 21/22 resulting in a repayment of income tax at 45% being £22,500

then the balance of the loss of £20,449 (70,449 - 50,000) would relieve income in 22/23 at 45% for a repayment of income tax of £9,203.

Under early year loss relief, no personal allowances have been wasted and relief has been at a rate of 45%.

the optimal relief is early year loss relief as only one year could be carry back otherwise under a s.64 claim, and current year or carry forward claims either waste the personal allowance or relieve income at a lower marginal rate of tax.

Part 2 - explain NICs implications for Harriet, assuming she makes the most beneficial claim for her loss

Harriet will receive a repayment of class 1 primary NICs contributions paid from employment income in 21/22 and 22/23.

As her income was above the upper earnings limit of £50,270, the relief on income would result in a repayment of NICs at 2%

21/22 - 2% of £50,000 = £1,000 repayment

22/23 - 2% of £20,449 = £409 repayment

harriet need not be concerned of the refund resulting in negative NICs contributions

consequences for her pension entitlement as the level of income and NICs paid would result in a qualifying contribution for the full tax year

Harriet would still make a qualifying NICs full year contribution for 24/25 from her employment income as well

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

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

Answer-to-Question- _3_

calculate and explain Maxine's CGT liability in 24/25, including any applicable reliefs

Business Asset Disposal Relief (BADR)

BADR applies where there is a material disposal of relevant business assets.

where BADR applies gains are taxable at 10% up to a lifetime limit of £1 million. As Maxine as used £165,000 of this allowance in March 2022, she has £835,000 of the lifetime allowance remaining.

For a shareholder, a material disposal of relevent busniess assets being shares applies where:

- 1) for a period of 2 years before the date of disposal
- a) the company is a personal where at least 5% of the share capital is owned, and this is sa trading company and
- b) the individual is an officer or an employee of the company

As she is a director, with 30% share holding which she has owned since 2002 the conditions are met. Trading status is discussed below.

Trading staus

a trading company asses the companies income, asset base, time and expenses and history. HMRC guidance states the company must not have significant non-trading activities generally taken to be 20%, however this is not definitive as the conditions are assessed holistically and considering the history in the round.

HMRC clearance can be sought on the trading status for BADR purposes

Income - the investment generates income of 12% of total revenue, as this is below 20% this would likely not be an issue

Asset base - as the investment in shares of £1.2 million as a proportion of assets of £8 million is 15% this is also likely not suggestive of significant non-trading activities

time and expenses - as Maxine spends 40% of working week on investments this relates to time with Grabel technologies LTd, and the remaining 60% is not company time/expenses and not relevant for BADR

As such on the above, and on the assumption HRMC clearance will be sought I have assumed BADR applies

Associated disposals

An associated disposal applied where there is a material disposal of business assets, of at least 5% of the ordinary share capital, which is the case as the 30% share capital is disposed of

where for period of 2 years from period of disposal of shares, the asset which is disposed of are in use for the purposes of the business.

the asset must have been owned throughout a period of 3 years prior to disposal. As the factory has been owned since 5 April 2005 and used in the trade since this date the conditions are met

there is a restriction on BADR for associated disposals for non-business use and rents charged. As the disposal is in the next tax year (disposal is on 15 April 2026 being tax year 25/26) there is no CGT liability in the tax year on this disposal and commentary refers to the remaining BADR lifetime limit and restrictions/eligibility for relief.

from 5 April 2005 to 6 April 2022 rent was charged at 70% market rate, for this period BADR will be restricted by 70%.

From 6 April 2022 to 15 April 2025 rent was charged at 90%, and BADR will be restricted by this amount.

As the asset was used for trading purposes throughout the period of being owned there is no restriction for non-trading use, and the only restriction refers to the rents charges will restrict BADR for two period of differing rents charged.

CGT liability

the gain on the share of £770,000 (W1) less the annual exempt amount of £3,000 is a net

gain of £767,000

£767,000 x CGT (BADR) 10% £76,700 payable on 31 Janaury 2026

lifetime allowance remaining is £68,000 (£835,000 less £767,000) for gain on facotry in the next year. However, the gain will e split for BADR gain and non-BADR gain for the excess (and subejct to the restriction above).

		Shares		Factory	
proceeds		800,000		375,000	
cost		(30,000)		(128,000)	
gain W1		770,000		247,000	

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

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

Answer-to-Question- _4_

Part 1 - explain whether benefits should be included in a PAYE settlement agreement, and the process of registering a PAYE settlement agreement

PAYE settlement agreements (PSA) are voluntary agreements under which employers can settle in a single payment of the income tax liability on largely minor benefits in kind and expenses payments given to employees

PSAs provide flexibility as where these are covered under PSA benefits and expenses do not need to be reported on the P11D, or under self assessment by the employee.

The employer will need to retain records for 3 years from the end of the tax year of provision of benefits, amounts paid and description of basis of calculation and rates of tax applied.

PSA must be in writing, signed and dated by the employer and HMRC. The PSA must also include qualifying general earnings, method of calculation, amount of income tax (and due date).

A PSA may be entered into at any time before 6 July 2025.

PSA applies to minor benefits that are irregular or where it would be impractical to apply PAYE or apportion the value between employees

PSA does not apply to:

- a- cash payments of wages, salaries, bonuses.
- b- major benefits provided regularly for the sole use by employees (for example company car, fuel, provided accommodation, beneficial loans.
- c- round sum allowances.

minor benefits include staff entertaining, gift vouchers or staff gifts

irregular payments are dependant on the facts and scenario of each case to be taken into account by an inspector. examples include one off gifts that are not minor, overseas

conference attendance

Relocation expenses that exceed the tax free amount of £8,000 is an example of a benefit that fails the test of being minor by virtue of the nature and size of the expense, but normally qualifies for the inclusion in PSA on the grounds of irregularity.

Relocation

Relocation costs paid to employees are not a taxable benefit where they do not exceed £8,000. Where this is the case, the balance above the tax exempt value is a benefit, being £2,000 (10,000 less 8,000). This is subject to income tax, and Class 1A NICs

As above the benefit cannot be said to be a minor benefit nor would it be impractical to apply PAYE, however as a result of the irregular nature (being a one off expense not expected frequently) this is generally allowed under PAYE, on assessment of the facts and scenario.

Small gift

The small gift of £250, included VAT as the company is the final consumer for VAT purposes (as no amounts have been charged to employees) as such the value of £300 is the cost to the employer and this is a minor and trivial benefit capable of including under PSA

the shopping voucher of £40 is also a trivial benefit which would ordinarily be able to included in the PSA. However, as this is exempt from income tax as this is below £50, as such this is a minor benefit not subject to tax and not required to be included in the PSA.

Staff events

The staff christmas party being a one off event is not an annual event as such would not be exempt benefit. The £4,000 divided by 20 employees is a cost of £200 per employee and as a irregular event and staff entertaining is accepted as a trivial benefit capable of included under PSA as it would be impractical to include in PAYE

The other one off event for horse would also be impractical to include and is not an annual event as such £9,000 divided by 20 employees is £450 per employee.

Part 2 - calculate the total amount that would be payable by Energy Drinks Ltd to HMRC under a PAYE settlement agreement and explain how these payments will be treated for CT purposes

the payments are grossed dependant on the tax payment staufs, basic rate (BR) (by 20/80), higher rate (HR) (by 40/60) and additional rate (AR) (by 45/55). A total of £7,446 of income tax is payable under PSA on 22 October 2025 and this would be a deductible expense for corporation tax.

the employer is loable to pay Class 1B NICs at 13.8% on the gross benefits being the cost of the benefit including income tax payable under PSA, this is (W2) £3,250 and this is payable by 22 October 2025, this would be a deductible expense for corporation tax

The cost of providing all the benefits for the relocation, staff gifts and staff events would be allowable expenses in computing trading profits/losses.

PAYE

	BS	HR	AR
	£	£	£
Relocation			
£2,000 x 40/60		1,333	
wedding gift			
£300 x 20/80	75		
shopping voucher			
£40 x 20/80 x 11	110		
£40 x 40/60 x 9		240	
christmas			
£200 x 20/80 x 11	550		
£200 x 40/60 x 9		1,200	

horse racing			
£450 x 20/80 x 11	1,238		
£450 x 40/60 x 9		2,700	
total income tax (w1)	£7,446		

NICs class 1B

Class

			Class 1B 13.8%
	£	£	£
Relocation			
cost benefit	2,000		
income tax	1,333		
gross benefit		3,333	460
wedding gift			
cost	300		
income tax	75		
gross benefit		375	52
shopping voucher			
cost	800		
income tax	350		
gross		1,150	159
christmas			
cost	4,000		
income tax	1,750		
gross		5,750	794
horse racing			
cost	9,000		

income tax	3,938		
gross		12,938	1,785
total class 1B (W2)			3,250

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

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

Answer-to-Question- _5_

Part 1 - discuss the Corporation tax implications of the cahges in share ownership and busines operation of Ginos Ltd

Share ownership

Ginos Ltd (the company)until 1 June 2022 was solely owned by Zachary.

A close company is a company controlled (51% share capital) by 5 or fewer participators (shareholders, or those with a right to buy shares) or any number of directors.

A close company is subject to s.455 Corporation Tax Act penalty at the dividend upper rate of 33.75% of loans made to participators on the value of the loan at the end of the accounting period (AP) or due date of payment of the penalty tax. The penalty tax is due with the corporation tx liability, being 9 months and 1 day after the AP

As such this would have been a close company for corporation tax purposes with Zachary owning 100% of the shares.

From 1 June 2024, as there are 4 participators who own the comapny th company remains a close company

Major change in nature or conduct of the trade

We consider the change of ownership rules and change in nature or conduct of the trade or busienss from 12 months preceding the change and for 5 years following the change of ownership.

change in ownership

A change in ownership of the company as defined in the corporation tax acto 2020

a) if a single person acquired more than half of the ordinary share capital, or

b) two or more persons each acquire a holding of at least 5% of the ordinary share capital and the holdings together amount to more than half of the ordinary share capital or,

c) two or more persons each acquire a holding of the ordinary share capital and, the holdings together amount to more than half of the ordinary share capital.

Under c, a holding of less than 5% is disregarded unless it is an addition to an existing holding and the two holdings together amount to 5% of the share capital.

Any gift of shares that which is unsolicited is left out of account, this applied to Zachary's gift of 5% to his daughter.

As Lucy acquired an additional 5% share capital and her husband also acquired an additional 5% share capital from Zachary and together they own 54% of the share capital (more than 51%) and control the company there is a change in ownership of the company from Zachary to Lucy and Russell.

Prior to this there is not a change of ownership as Zachary controls the company.

Meaning of major change in the nature or conduct of a trade or business

A major change would apply to the types of services, trades, customers, outlets or markets as defined in s.712 of CTA 2010.

A major change would also apply where the company ceases to be a trading company and becomes an investment company.

For the above, changes considered includes changes which is achieved gradually as a result of a series of transfers or changes.

Apportionment of AP

The change in ownership applied on 1 June 2024, as such the trading profits from 1 April 2024 to 31 May 2024 are not subject to any restrictions as there has not been a major change in the nature or conduct of the trade and profits of £15,000 are relievably by the brought forward losses of £55,000.

From 1 June 2024, there are various changes.

The first change being changes to menu and unpopular items being removed. HMRC accept changes to improve efficiency and profitability by removing unprofitable items within the same operational trade does not constitute a major change in the nature or conduct of the trade, as such there would be no implications from this item.

As above, cuts to senior management to improve efficiency and reduce costs would similarly not result in any corporation tax implications.

1 September 2024

As the business closed for one month and the business converted in to a wine bar the company ceased to trade. The AP would be 1 April 2024 to the end of August 2024.

there would be a month AP with no activity and a new AP from 1 October 2024 to 31 March 2025.

As the customers, and nature of the trade has changed from being a takeaway kebab shop to a wine bar hosting customers in the shop and offering a different product by trade from foods to drinks, this would likely constitute a major change in the nature or conduct of the trade, and as a result brought forward trading losses would be blocked from the date of change of ownership.

part 2

before 1 June 2024

The change in ownership applied on 1 June 2024, as such the trading profits from 1 April 2024 to 31 May 2024 are not subject to any restrictions as there has not been a major change in the nature or conduct of the trade and profits of £15,000 are relievably by the brought forward losses of £55,000.

1 June 2024 onwards, as there is a change in nature or conduct of trade losses of £45,000 (£55k - £10k) are blocked and cannot be utilised by the company.

	£	£	
April - May			
profits		15,000	

losses		(15,000)	
may - June			
profits		30,000	
Sept - March		100,000	
TTP		130,000	
Loss			
loss b/f	55,000		
April - May	(15,000)		
net loss blocked	45,000		

CT liability

$£130,000 \times 25\% = £32,500$

less marginal relief $\frac{3}{200} \times (250,000 - 130,000) \times 1 = £1,800$

$£32,500$ less $£1,800 = £30,700$ payable 1 January 2026

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

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

Answer-to-Question- _6_

Part 1 - calcualte whether carrying on the business as a sole trader or as a limited company would provide the best after tax position for Peter in 25/26

1 June 2025 - 31 March 2026

sole trader after tax income is £57,711, Peters income from company after tax is £69,868.

£12,157 higher through company.

Sole trader

£80,000 les (total income tax of £19,432 and class 4 NICs of £2,857) is after tax of =
 £57,711 income

	£		
trading profit	80,000		
personal allowance	(12,570)		
net income	67,430		

		tax	income tax
	£		£
net income	67,430		
	(37,700)	20%	7,540
	29,730		
	(29,730)	40%	11,892
total income tax			19,432

	£	£	£
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trading income	80,000		
			NICs class 4
50,270 - 12,570	37,700	6%	2,262
80k - 50,270	29,730	2%	595
Total class 4 NICs			2,857

Company

After tax position of salary £12,570 and dividend income of £72,170 being £84,740 less income tax of 14,872 = £69,868 after tax

	£	£	
accounting profits		80,000	
deduct			
accountancy	750		
Peter salary	12,570		
W1 class 1 seconday NICs	479		
		(13,799)	
Add			
RDEC W3(+W2)	8,114		
		8,114	
trading profit		74,315	

	£		
CT			
25% 74,315	18,579		
marginal relief W4	(2,635)		
	15,944		
less RDEC	(8,114)		
CT liability	7,830		
Accounting profit	80,000		
CT	(7,830)		
W5 distributable	72,170		

	NS	D	income tax £
salary	12,570		
W5 dividends		72,170	
PA	(12,570)		
net income	0	72,170	
72,170			
(500)		0%	0
71,620			
(37,200)		8.75%	3,255
34,420			
(34,420)		33.75%	11,617
total income tax W6			14,872

W4 - marginal $\frac{3}{200} \times (250,000 - 74,315) \times 1$

W1 - class 1 secondary NICs Peter

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

Employment allowance assumed to already be included via Ellen.

R&D qualifying expenditure

salary, pension, ER NIC

Ellen salary £57,120 - 9,100 x 13.8% = 6,627

	£	£	total £
Ellen			
salary	57,120	50%	28,560
pension	4,344	50%	2,172
ER NICs	6,627	50%	3,314
Peter			
Salary	12,570	50%	6,285
ER NICs	479	50%	240
total W2			40,571

As software testing outside of UK this is not qualifying R&D expenditure

W3 RDEC is 20% of £40,571 = £8,114

As software would be patentable, PAYE and NICs cap not applicable

Part 2 - Explain why it may be beneficial for Peter to operate through a limited company, as opposed to as a sole trader

Where trades through a limited company as opposed to a sole trader this has the benefit of choice of extracting profits in a tax efficient manner.

As Peter expects to pay himself a salary of £12,570, this would have the effect of using his personal allowance such that the non-savings income as a salary will not suffer income tax, nor would it suffer class 1 primary NICs liability.

This is because 20% income tax is payable on earnings above the personal allowance, and class 1 NICs are payable at 8% above the primary threshold of £12,570.

Where Peter extracts the balance of distributable profits via a dividend, these are not subject to NICs, representing a beneficial tax saving.

Peter will benefit from the £500 dividend allowance for tax free dividends, and the balance of his basic rate band remaining of £37,200 is subject to income tax at 8.75%

Dividends above the dividend order rate band are subject to a income tax rate of 33.75% up to £125,140. Both rates of income tax are lower than the non-savings rates of 20% and 40% respectively.

Peter will not make NICs contributions, self employed individuals can make voluntary class 2 NICs contributions for state pension entitlement.

Where Peter trades through a company as opposed to a sole trader, he can submit a claim for R&D relief (either under the merged RDEC regime or for additional relief under SME regime where eligible)

This would have the benefit of relief for RDEC where this reduces the CT liability (increasing amounts for distribution) and unrelied RDEC can result in a repayment for the company.

The additional cost of £750 for accountancy will also be a deductible expense in computing trading profits, as will his salary expense and class 1 secondary NICs payable by the company.

