

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	<b>1157</b>	<b>5443</b>	<b>6557</b>
Section 2	<b>873</b>	<b>3957</b>	<b>4779</b>
Section 3	<b>1114</b>	<b>4752</b>	<b>6026</b>
Section 4	<b>788</b>	<b>3706</b>	<b>4473</b>
Section 5	<b>1107</b>	<b>5055</b>	<b>6482</b>
Section 6	<b>723</b>	<b>3370</b>	<b>4070</b>
Total	<b>5762</b>	<b>26283</b>	<b>32387</b>

Answer-to-Question- \_1\_

1 April 2023 - 31 March 2024

	£		
Loss per accounts	(189,600)		
Add back			
Staff costs (see note 1)	0		
Premises costs (note 2)	8,000		
Premises costs (note 2)	7,600		
Lease (note 3)	162		
Car lease (note 4)	8,330		
Other car expenses (note 5)	2,600		
Parking fine (note 6)	1,900		
Legal and professional (note 7)	5,400		
Depreciation	15,100		
Less:			
Capital allowances	(24,544)		
tax adjusted trading loss	(165,052)		

note 1 Staff costs - costs incurred in the termination of staff are deemed to be incurred wholly and exclusively for the purposes of the trade. Therefore allowable in full. HMRC deem this cost to be to maintain staff morale. No adjustment is required in calculating the tax adjusted trading profits.

Note 2 Premises costs

The rent and rates of £24k relate to the entire year end 31 March 2024. The rent paid after November 2023 will not be wholly and exclusively incurred for the purposes of the trade, and therefore an add back is required for the months of December, January, February and March. Being £2000 for 4 months. Therefore £8k add back.

Heat light and water are all allowable revenue expenditure so no add back required.

Repairs for painting the office before the rental occupation is wholly related to the rental business which will be carried on. This is not trade related and therefore £7600 must be added back.

Note 3 The lease paid of £18000

The allowable deduction to be included is:

$$18000 \times (50-9)/50 = 14760$$

Therefore £14760 must be spread over the 10 years of the lease. This being £123 per month (£14760/120). Therefore for the period 1 October 2023 to 31 March 2024, 6 months, the allowable cost is £738. Therefore we add back £162.

Note 4 - car leasing

As the cars have CO<sub>2</sub> emissions above 85g/km, we must restrict the allowable car lease costs to 85%.

$$\text{Therefore } £17,000 \times 85\% = £14,450$$

We must make a further restriction for the 40% private use.

$$£14,450 \times 60\% = £8,670 \text{ is the allowable car lease expenses, therefore we add back } £8330 \text{ (} £17000 - £8670 \text{)}$$

Note 5 - other car expenses.

We must add back 40% of the costs incurred of the £6500, due to the private use.

Therefore £2600 to add back.

Note 6 - parking fine

HMRC do not allow parking fines as an allowable deduction. Although an argument may be available that if subject to income tax under ITEPA 2003, the deduction would be allowable as subject to IT on the employee.

However, disallows as generally, HMRC do not allow fines as a reduction.

Admin costs - no add back required

Legal and professional (note 7)

Legal fees for a new lease are disallowed as capital - only renewal of short lease is

allowable. Therefore £5400 add back.  
 Debt collection is allowable as W&E trade related.  
 Accountancy fees also allowable in full.

**Note 8 - depreciation**

Depn on a finance lease is allowable. Therefore add back the excess.  $(19700-4600) = £15100$

**Capital allowances**

	AIA (£)	Main pool (£)		Capital allowances (£)
WDV b/f		6,800		
Additions				
Furniture	23,320			
	23,320	6,800		
AIA @ 100%	(23,320)			23,320
WDA @ 18%		(1,224)		1,224
WDV c/f	0	5,576		
			<b>total CAs</b>	<b>24,544</b>

**Allocation of loss between partners:**

	£ (total)	Akshar (£)	Ben (£)	Cora (£)	Workings
YE 31.03.24	(165,052)				
PE 31.12.23	(123,789)				(165,052 x 9/12)
Less: interest	(480)	480			
Distributable losses	(124,269)				
Loss distribution (80:20)	124,269	(99,415)	(24,854)		

3me 31.03.24	(41,263)				(165,052 x 3/12)
Less: salary	(11,250)			11,250	45,000 x 3/12
Distritubable loss	(52,513)				
Loss allocation (50:40:10)	52,513	(26,257)	(21,005)	(5,251)	
Net	0	(125,192)	(45,859)	5,999	
Reallocate Cara profit to Aksahar		4,391		(4,391)	(125192/( 125192+4 5859) x 5999
Reallocate Cara profit to Ben			1,608	(1,608)	45859/(12 5192+458 59)x5999
Taxable profit/loss		(120,801)	(44,251)	0	

Interet payable to Akshar = £160000 x 4% x 9/12

As Cara has realised a profit even though the partnership realised an overall loss, the notioanl profit must be reallocated to Askhar and Ben.

2)

Akshar and Ben are both within the first 4 tax years trade.

s83 loss relief claim. This carries forward the trading loss to be offset against the first available profits. A claim must be made within 4 years from the end of the tax year. Therefore 5 April 2028.

s64 current year and carry back claims. These loss relief claims offset the trading loss against each individuals net income for the 2023-24 or 2022-23 tax year. A claim must be made by the first anniversary of 31 January followingthe end of th etax year. Therfoer 31 Janaury 2026.

A claim is all or nothing and therefore can lead to the loss of the personal allowance.

Claims for current year or carry back can be made in any order.  
The loss relief claim for each year against net income is restricted to the higher of £50k and 25% of the adjusted total income (total income less gross personal pension contributions)

s71 loss relief - offset the trading loss against capital gains for the year. In order to make this claim, a s64 loss relief claim must have already been made. This would be relevant to Akshar as he has a £165k capital gain. The amount of the loss which is used is the lower of the remaining loss after the s64 loss relief claim, and the capital gain arising. A claim must be made by the first anniversary of 31 January following the end of the tax year. Therefore 31 January 2026.

s72 loss early years loss relief claim. This is available as Askahr and Ben are within the 4 for tax years of trading. As a result, they are able to carry back a trading loss and offset it against net income of the three tax years immediately preceding the tax year the loss arises in. A claim must be made by the first anniversary of 31 January following the end of the tax year in which the loss arises. Therefore 31 January 2026.

The years in which the loss can be carried back is therefore 2022-23, 2021-22 and 2020-21. Loss relief is carried back against earlier years first, (i.e. 2020-21). The loss relief is an all or nothing claim and so can lead to the loss of the personal allowance. Any remaining loss after the 2020-21 loss relief is then carried forward to 2021-22 to be offset.

It would be advised that loss relief claims are made on the most tax beneficial basis. This would be for the highest rate of tax relief.

A current year s64 claim would be unadvised for Askhar as would only provide basic rate tax relief on his income.

A s72 early years loss relief claim would provide some higher rate loss relief, with the remainder being basic rate, and some wasting the personal allowance.

if they are due to turn large profits and therefore be earning at £100k or more, it would be advised to carry forward as it would provide 45% or even 60% tax relief (where between £100k and £125140).

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- \_2\_

1)

It is assuming that Virginia will be making a formal liquidation and therefore the capital route will be available to her.

	£		
Proceeds	300,000		
Base cost	(1)		
net gain	299,999		

Virginia's net gain following the winding up is £299,999.

From this, she will be able to deduction the £6k annual exemption amount.

This provides a chargeable gain of £293,999 (£299,999 - £6,000).

The standard position is that Virginia will be subject to capital gains tax at a rate of 20%. This is on the assumption that she is a higher rate tax payer because of the £100k dividend extraction.

However, Virginia will be eligible for Business Asset Disposal relief on the disposal of the shares in the company.

This is because it is treated as a material disposal of business assets.

This is because for 2 years prior the cessation of trade by Magic Threads Ltd, Virginia owned at least 5% of the shares in the company, it was a trading company and she was a director. Therefore the gain qualifies for the BADR rate of CGT which is 10%. It is stated in the question that Virginia has not made any previous capital disposals and therefore it is assumed she has her full £1m BADR lifetime allowance available.

CGT due:

$$293,999 \times 10\% = 29,400$$



A claim for BADR must be made by the first anniversary of 31 January following the end of the tax year. Therefore by 31 January 2027.

The capital gains tax will be payable by 31 January 2026 and will be reported on her self-assessment tax return (deadline for submission is the same as payment deadline).

2)

The involvement with FantasyFit Ltd may trigger the targeted anti-avoidance rules legislation. (TAAR) (also known as Phoenix rules).

These rules will apply where conditions A - D are met.

Condition A - Immediately before winding up the company, the individual has at least 5% interest in the company. This condition is met as Virginia had at least 5% shares in Magic Threads Ltd before the winding up.

Condition B - The company was a close company when wound up - this was the case as Virginia was the sole shareholder and therefore the 5 or fewer shareholders criteria is met.

Condition C - At any time within 2 years from the distribution (31 March 2025 - 31 March 2027), Virginia carries on a trade or activity which is the same or similar to that being carried on by the company or;

The individual is a partner in a partnership which carries on such a trade or activity, or;  
The individual or a person connected is a participator in a company in which he or she has a 5% interest and carries on a similar trade or activity.

Condition d - is that it is reasonable to assume that a main purpose of winding up was to obtain a tax advantage.

If Virginia was to be an employee of Fantasy Fit Ltd, Condition C would not be met and therefore the TAAR rules would not apply.

However, if Virginia was to become a 25% shareholder in the company, we would want to consider this in more detail as Condition C would be met. It would likely be argued by HMRC that due to the sale of trade and assets to Fantasy Fit Ltd, a similar activity would be carried out in Fantasy Fit Ltd, as it was in Magic Threads Ltd. As a result of this, and Virginia holding more than a minimum 5% shareholding in Fantasy Fitness Ltd within 2 years, the TAAR rules would apply.

Furthermore, HMRC would likely argue that this transaction has taken place with a main purpose of avoiding tax, due to the sale of trade and assets to Fantasy Fitness Ltd prior to the winding up of Magic Threads Ltd.

The impact of the TAAR rules applying is that the distribution Virginia receives would be subject to income tax by way of a dividend instead of a capital distribution. The base cost of the shares would be deductible in calculating the taxable amount though.

It would therefore be advised that Virginia takes the employee route for the first 2 years following the distribution, and then become a shareholder once the TAAR window has 'closed'.

If the TAAR did apply, then she would be subject to income tax on £299,999 (£300,000 - £1).

The dividend allowance would not be available as it would have been used against her £100k dividend earlier in the year.

Furthermore, the loss of the personal allowance would arise as her adjusted net income will exceed £125,140.

	NSI (£)	SI (£)	Dividends (£)
Dividend			100,000
TAAR distb			299,999
Personal allowance			0
Taxable			399,999

$$1,000 \times 0\% = 0$$

$$36,700 \times 8.75\% = 3,211$$

$$87,440 \times 33.75\% = 29,511$$

$$274,859 \times 39.35\% = 108,157$$

$$\text{Total income tax} = 140,879$$

Compared to if TAAR did not apply:  
CGT due of £29,400, plus income tax:

Dividend: £100K

Less: personal allowance (12,570)

Taxable 87,430

$$1000 \times 0\% = 0$$

$$36,700 \times 8.75\% = 3211$$

$$49,730 \times 33.75\% = 16,784$$

$$\text{Total income tax} = 19,995$$

$$\text{Total tax if TARR does not apply} = 19995 + 29400 = 49395$$

Therefore the TAAR does apply, the additional tax payable is £91,484 (£140879 - £49395)

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- \_3\_

1)

The optional remuneration rules apply where cash consideration is provided as an alternative to a benefit in Kind. Where these rules apply, the employee is subject to income tax on the higher of the cash foregone or the cash equivalent of the benefit in kind (BIK). In addition, the employer is subject to Class 1A NIC on the same value, at a rate of 13.8%.

### **Olena**

Although the optional remuneration rules do apply here, pension contributions are specifically exempt from the optional remuneration rules. Therefore, the result of Olena having £5k of her salary deducted means that her employer saves money from this transaction as previously the employer would have been subject to class 1S NIC on the £5k salary at a rate of 2%, whereas no Class 1S NIC is payable by the employer on the pension contribution as it is an exempt payment.

The tax saving is therefore  $2\% \times 5000 = \text{£}100$ .

The employer is still paying the £5k, but this time it is exempt from NIC.

**Overall cost/(saving): (100)**

### **Devon**

Company car:

The car BIK arising is:

list price = £25600

Co2 = 100

$100 - 75 = 25/5 = 5 + 20 = 25\%$

$25\% \times 25600 = 6400$  car BIK

Due to the optional remuneration rules (OPRA), Devon is subject to income tax on the higher of the car BIK (£6400 and the salary sacrificed). The higher being the salary sacrificed of £7000. Therefore Tson Ltd has to pay Class 1A NIC on that same value.

The Class 1A NIC payable is therefore:  $£7000 \times 13.8\% = £966$ .

But the company will save Class 1S NIC at a rate of 2% on the cash foregone:  $£7000 \times 2\% = £140$ .

The total cost of providing the car is therefore:

Class 1A NIC	966
Less: Class 1S saving	(140)
Less: salary payment saved	(7000)
Add: cost of car	6200
<b>net cost</b>	<b>26</b>

Private fuel:

If private fuel is not reimbursed by Devon is full, a fuel benefit in kind will arise too at a value of:

$£27800 \times 25\%$  (% being the car Co2 percentage) = £6950

Again, we tax the higher of the cash foregone (£1000) or the fuel BIK value (£6950).

Therefore we tax the £6950. On this sum Class 1A NIC will be payable:

$£6950 \times 13.85 = £959$

A saving will arise on the salary not paid, plus the Class 1S NIC not paid ( $£1000 \times 2\% = £20$ )

The total cost of providing the fuel is therefore:

Cost of fuel	1300
Class 1A NIC	959
Less: salary payment saved	(1000)
Less: C1S NIC saved	(20)
<b>net cost</b>	<b>1239</b>

**Parking Space:**

A parking space is a an exempt benefit in kind, and therefore we tax the cash foregone under the BIK rules.

Therefore £500 would still be subject to class 1A NIC. C1A NIC payable is therefore  $13.8\% \times 500 = £69$

Total cost of providing the parking space is therefore:

Class 1A Nic	69
Cost of parking space	600
less: salary saved	(500)
less: C1S NIC saved	(10)
<b>Net cost</b>	<b>159</b>

Summary of costs (savings):

	Olena (£)	Devon(£)	Total(£)
Pension	(100)		(100)
Car		26	26
Fuel		1239	1239
parking space		159	159
Total	(100)	1424	1324

2)

It is assumed that the company has an accounting year end of 31 March.

Tson Ltd is a close company because 5 or fewer shareholders have control of the company. Control being a 51% ownership or more in the company. This is because both Mia and Aida are the only participators and therefore by default they have control between them.

As a result of the company being a close company, the s455 CTA 2010 legislation applies. This states that where a loan is made from the company to a participator, a tax charge arises on the company at a rate of 33.75%.

The amount on which the tax charge is levied on is the lower of the loan outstanding at the end of the accounting period, or 9 months and 1 day after the end of the accounting period (the CT payment deadline).

S455 tax is due for payment 9 months and 1 day after the end of the accounting period in which the loan arises. A repayment of the s455 tax is received 9 months and 1 day after the end of the accounting period in which the loan is repaid/written off it.

The £44k was taken out during the accounting year ending 31 March 2023. Therefore, s455 tax charge would be levied on the lower of the amounting at YE 31.03.23 and 1 January 2024 (9 months and 1 day after AP end).

In Mia's case, the loan was repaid before 1 January 2024, however where a loan is repaid and within 30 days another loan is issued, and both sums exceed £5k, the bed and breakfasting rules apply. When these apply, it is treated as if the loan repayment has repaid the later loan reissuement, and therefore does not repay the original loan.

The loan was reissued on the 30th day after the loan repayment. Therefore the bed and breakfasting rules will apply.

As a result the company will have a s455 tax charge on £14000 (£44k - £30k). Therefore the company has a s455 tax charge of £4725 (£14000 x 33.75%).

This is due for payment by 1 January 2024 to HMRC.

The loan was repaid 6 February 2024, therefore during the accounting year ended 31 March 2024. Therefore, the repaid of s455 tax will be received 1 January 2025. It will be offset against the company's corporation tax liability, and if they do not have one, it will be repaid directly.

Mia will have a loan benefit in kind arising during the 2022-23 and 2023-24 tax year as by reason of her employment has received a low interest loan.

As the loan was made by reason of her employment, it will be subject to income tax and the company will have to pay Class 1A NIC on the BIK value. The BIK is taxed as non-savings income and will be reported on form P11d to her. This needs to be submitted by the company by 6 July following the end of the tax year(s).

2022-23 loan BIK:

$$£44000 + £44000/2 \times 2.25\% \times 7/12 = 578$$

2023-24 loan BIK:

$$£44000 + £14000 / 2 \times 2.25\% \times 10/12 = £544$$

Strict:

$$£44000 \times 2.25\%/12 \times 4 = 330$$

$$£14000 \times 2.25\%/12 \times 5 = 131$$

Total BIK = 461.

The strict method should be used for 2023-24 as more beneficial and accurate.

The average and strict method for 2022-23 will be the same as no repayments/additional loans were issued during the tax year.



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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

**Antonio**

HMRC's enquiry window for the 2020-21 tax return was 30 January 2023 (12 months after the submission deadline).

No enquiry was raised.

HMRC have later opened a discovery assessment under s29 TMA 1970.

A valid discovery assessment can only be raised where there has been an amount of tax which has not been assessed, which ought to be; there has been an assessment to tax but it is insufficient; or excessive relief has been claimed/provided.

HMRC are claiming that the CGT market value of the goodwill was understated and therefore additional CGT is payable on Antonio.

A further requirement is that either of the following conditions must be met:

1. The loss of tax has arisen as a result of careless/deliberate behaviour.

or

2. At the time in which a HMRC officer could enquire into the tax year, the officer could not have been reasonably expected, based on the information provided to be aware of the situation.

Where reasonable care has been taken, and full disclosure has been made on the return a discovery assessment cannot be opened.

In Antonio's case, it would likely be viewed by HMRC that either careless behaviour has taken place, as a professional valuation has not been obtained; or that full disclosure was not made on the return.

HMRC would have to argue that the valuation provided by the accountant is not sufficient and not professional.

It would be more likely that an argument would be made by HMRC that sufficient information was not included on the return; such as detailing how the £650k valuation was achieved.

If the £1m valuation was correct, Antonio may be subject to a penalty on the potentially lost revenue (PLR). The PLR being the tax which has not been paid as a result of the error.

The penalty rates depend on the behaviour status applied to Antonio's circumstances.

Where behaviour is classed as reasonable care- having taken all steps that would be reasonably expected by other taxpayers in a similar position, a nil% penalty would apply.

Where careless, the standard penalty is 30%. Where deliberate but non-concealed it is 70% and where deliberate and concealed it is 100%. The latter two would not apply as it would be reasonable to assume that Antonio has not carried out this transaction with a deliberate view to avoid tax.

Reductions can be made for telling HMRC, helping HMRC, and allowing HMRC access to files to bring the affairs up to date.

The disclosure to bring the 2020-21 tax year up to date would be classed as a prompted disclosure as HMRC have prompted Antonio to amend the return, therefore the minimum penalty rate available for carelss behaviour would be 15% (were unprompted 0%).

On £70k of tax a 15% penalty would be £10500.

Furthermore, interest would be payable on the £70k sum, which would have accrued since the original payment deadline of 31 January 2022. (therefore accrued from 1 February 2022 to the date payment is made).

The time limits for which HMRC can open a discovery assessment is 4 years from the end of the tax year - therefore 5 April 2025. Where there is careless behaviour this is extended to 6 year and where deliberate 20 years.

Therefore, on the basis that HMRC do not believe that sufficient disclosure was made on the return, they are within their rights to open a discovery assessment.

### **Topolino Ltd**

The filing deadline for the company's corporation tax return for the year ended 30 June 2021 was 30 June 2022 (12 months from filing).

As the return was filed late, HMRC have 12 months from the end of the quarter end next

to enquire into the tax year. This being 30 April 2024. Therefore, HMRC can validly open an enquiry into the Ye 30.06.21 corporation tax return.

The CT return for the year ended 30 June 2022 was submitted on time, as it was submitted before 30 June 2023.

The amendment made by the company was a valid amendment as it was made within 12 months of 30 June 2023

Due to the amendment, the enquiry window is extended by 12 months following the end of the quarter next after the amendment submission. In this case the amended return was submitted on 31 March 2024 and therefore the deadline for HMRC to enquire into the return is 30 April 2025. Therefore, HMRC are within their rights to open an enquiry into the tax return. However, as the enquiry was opened after the original enquiry deadline of 30 June 2024, the enquiry can only be made into the amended areas of the return - this being the R&D tax relief claim. The tax deductibility of staff bonuses will be outside the remit.

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-----ANSWER-4-ABOVE-----  
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 -----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

1 January 2024 to 31 July 2024 (7 months)

	£		
Loss per accounts	(296,000)		
Add			
capital allowances (note 2)	52,376		
Computer equipment disposal	6,000		
Less: SBA	(805)		
Inventory loss	(8,000)		
tax adjusted trading profit	(246,429)		

Note 1 - factory sale

Proceeds	236000
Base cost	(150000)
net gain	86000

As rollover relief was previously claimed against the factory, the previous gain rolled over of £70k reduces the base cost on disposal by the same amount. However, as £50k of the proceeds were not reinvested these would have been chargeable immediately in 2018. Therefore only £20k of the gain would qualify for relief. Therefore the base cost is £170k - £20k

No SBA will have been claimed as it was constructed before 29 October 2018.

This is a chargeable gain, so gets its own line on the corporation tax computation, and not included in calculating tax adjusted trading profits.

Note 2 - capital allowances

During the final accounting period, no WDA, AIA or FYA is available. Instead balancing adjustments will arise in the pools.

	Main pool (£)	Special rate pool (£)			capital allowances (£)
WDV b/f	67,624				
Disposals					
factory machinery	(120,000)				
	(52,376)				
Balancing charge	52,376				(52,376)

A balancing charge arises on the disposal of factory machinery as proceeds exceed the WDV b/f.

note 3 - Warehouse

On disposal, the SBA claimed is added to the proceeds value, therefore total proceeds if  $£5865 + 105995 = £111860$

Proceeds	111860
Less: base cost	(98000)
net gain	13860

It is assumed that the trading loss of £296000 does not include an SBA charge for the period 1 January 2024 to 31 July 2024.  $£46000 \times 3\% \times 7/12 = 805$

The total SBA claimed is:

1 May 2020 - 31 December 2020 =  $3\% \times 46000 \times 8/12 = 920$

1 Jan 21 - 31 Dec 21 =  $3\% \times 46000 = 1380$

1 Jan 22- 31 Dec 22 =  $3\% \times 46000 = 1380$

1 Jan 23 - 31 Dec 23=  $3\% \times 46000 = 1380$

Total SBA claimed =  $920+1380+1380+1380+805 = 5865$

Note 4- computer equipment.

As the super deduction was claimed on this, the disposal is not taken into account in the capital allowances computation but instead an adjustment is made in calculating the tax adjusted trading profits of 100% of the proceeds (as accounting year is wholly after 1 April 2023):  $100\% \times £6000 = £6000$ .

note 5 - inventory disposal realised a loss of £8000 (£36000 - £44000).

Note 6 - goodwill is a chargeable asset as it was not acquired on or after 1 April 2019 along with qualifying intellectual property.

Proceeds	120000
Base cost	(0)
net gain	120000

Summary of chargeable gains

Factory	£86000
Warehouse	£13860
Goodwill	£120000
Total	£219860

**Corporation tax computation**

Trading profit	0
Chargeable gains	219860
	219860
Less: QCDs	(6000)



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TTP    213860

Trading loss relief is available of **£246429**

The company could make a current year trading loss relief claim. This would offset the trading loss against the TTP of the current accounting period. This is an all or nothing claim and would lead to the wastage of the QCDs.

A claim must be made within 2 years from the end of the accounting period.

If this loss relief was done, it would lead to the wastage of the £6k QCDs.

Tax relief would effectively be 26.5% on profits between £50k to £219860, and 19% from 0 - £50k.

Following this loss relief can be obtained for the trading losses by offset them against TTP of profits arising 12 months before the accounting period in which they arise.

Therefore 1 January 2023 to 31 December 2023.

This again is an all or nothing claim.

A claim can only be made where a current year loss relief claim has been made.

If this claim was done, there would be £26569 of losses available to carry back, following the current year loss relief election. This would wipe out trading profits of the period 1 Jan 23 - 31 Dec 23, and would lead to the wastage of the £12k QCDs.

Tax relief would be at a rate of 19%.

There is no availability to carry forward trading losses after 31 July 2024.

A terminal loss relief claim could be made to carry back the trading loss against TTP of the 36 months prior to the final 12 months of trade. Terminal loss takes the losses arising in the final 12 months of trade and offsets them against the TTP arising 36 months before. The loss relief is obtained against later years ahead of earlier years.

The terminal loss would be:

1 August 2023 - 31 December 2023	0
1 January 2024 - 31 July 2024	(246429)
Terminal loss	(246429)

2)

Fargum acquire the factory at the proceed value. No SBA can be claimed as it was not constructed after 29 October 2018.

The factory machinery is acquired for £120k. On this value, Fargum Ltd can claim the annual investment allowance as it was not acquired from a connected party, or can allocate to the main pool where tax relief is obtained using the written down value of 18%. No FYA is available as it is not brand new expenditure.

Warehouse - Hanfort Ltd will need to pass over a statement confirming the qualifying expenditure on the warehouse. Fargum ltd will be able to claim the remaining SBA at the flat rate of 3% from the date the property is first brought into use. The SBA claimed is carrying on from the following claims. i.e. SBA is claimed over a 33 year span, with that 33 years starting 1 May 2020. So they can only claim SBA on the remainder. Therefore the value on which SBA is claimed is the £46k.

The computer equipment is acquired as plant and machinery as so can have the AIA claimed on it. it also could have the WDA @ 18% claimed if AIA is not available. the FYA cannot be claimed as it is not brand new expenditure. The value on which capital allowances is claimed is the proceeds paid for for P&M.

Inventory - the base cost of the inventory is £36k. Therefore the profit/loss on eventual disposal is calculated based on this value.

Goodwill - the base cost of the goodwill is £120k. As no qualifying intellectual property was transferred as well, the goodwill is not a qualifying IFA and therefore tax relief is not available on the cost.

The question does not state anything about fixtures or fittings. However, if either the factory or warehouse have fixtures and fittings a fixed value requirement election and pooling requirement must be met in order for Fangum to claim capital allowances on the values.

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-----ANSWER-5-ABOVE-----  
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 -----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

1 April 2023 - 31 March 2024

Full year therefore no apportionment to the AIA or WDA.

	AIA (£)	FYA @ 100%(£)	Main Pool(£)	Special rate pool(£)	Van (50% private)(£)	Capital allowanc es (£)
WDV b/f			9,000	900	5,000	
Additions						
Solar panels	10,885					
Printers			1,500			
Shelving and desks	700					
Compute rs	1,500					
office furniture	1,000					
Woodwo rking machine	12,000					
Electric van		26,000				
Wood saw machine	7,000					
Number plate	3,015					
Disposals						
Computer equipment			(250)			
van					(4,000)	
Old equip			(1,200)			
	36,100	26,000	9,050	900	1,000	

Balancing allowance					(1000) x 50%	500
AIA @ 100%	(3,6100)					36,100
FYA @ 100%		(2,6000)				26,000
WDA @ 18%			(1,629)			1,629
WDA @ 6%				(54)		54
WDV c/f	0	0	7,421	846	0	
					<b>Total Capital allowances</b>	<b>63,783</b>

Solar panels - these are special rate expenditure under s104A CAA 2001. Therefore allocated to the special rate pool, but to allow for better tax relief, we claim the AIA.

Printers - as acquired from a connected person, we cannot claim the AIA on this value. Therefore allocated to the main pool.

Shelving and desks - as used privately previously, we use the market value when transferred into the business. We can claim the AIA as not acquired from a connected party, but instead moved from private to business use.

Computers - allocate to AIA for best tax relief.

Office furniture - as gifted, we take the market value.

Woodworking machine - assets acquired under HP are deemed for capital allowance purposes to be acquired wholly when delivered. Therefore, we can claim capital allowances on the whole capital value of the asset at the point the obligation to purchase becomes unconditional (purchase).

The 4 month rule does not apply to HPs.

Work van - the van qualifies for the all businesses FYA and therefore claimed accordingly. The question does not specifically state any private use for the new van, so capital allowances claimed on the full value. It would be restricted proportionally for private use though.

Wood saw machine - the date on which the obligation to purchase becomes unconditional is 15 march 2024, (delivery). However, payments made more than 4 months after this have capital allowances claimed on when they are paid - therefore we can only claim £7k in YE 31.03.24, as the £3k paid after was more than 4 months.

Number plate - allocate to the AIA.

Computer equipment - where gifted we take market value. We deduct from main pool.

Old van disposal - we only take 50% of the balancing adjustment on disposal.

Scrapped old equip - we deduct proceeds from main pool.

2)

Tax adjusted trading profit (before CAs)	182,500
less: capital allowances	(63,783)
<b>Taxable trading profits</b>	<b>118,717</b>

	NSI (£)	SI (£)	Dividends (£)
Sole trade	106,717		
bank interest		1,215	
Dividends			2,285
	106,717	1,215	2,285
Personal allowance	(8,361)	0	0
<b>Taxable</b>	<b>98,356</b>	<b>1,215</b>	<b>2,285</b>

$$39500 \times 20\% = \text{£}7900$$

$$58,856 \times 40\% = 23,542$$

$$500 \times 0\% = 0$$

$$715 \times 40\% = 286$$

$$1000 \times 0\% = 0$$

$$1285 \times 33.75\% = 434$$

$$\text{Total income tax liability} = 32162$$

Sole trade tax adjusted profit of £118717 is reduced by the losses brought forward of £12000. Therefore £118717 - £12000 = £106717.

Furthermore, assuming that the £3k loss relief in 2022-23 was s64 against net income, there is a £3k Class 4 NIC loss available.

premium bonds are exempt from income tax.

Gift Aid donation increases his basic rate tax band as follows:

$$\text{Gift Aid donation} = £1440 \times 1.25\% \text{ (to gross up for basic rate tax relief)} = £1800$$

$$\text{New basic rate tax band} = 37700 + 1800 = £39500$$

$$\text{New higher rate tax band} = 125140 + 1800 = £126940$$

Gift Aid donations also are deducted in calculating adjusted net income for personal allowance restriction purposes.

The net income is £110217, less the £1800 gift aid which is £108417 adjusted net income.

Therefore the personal allowance is restricted by  $£8417/2 = £4209$ .

$£12570 - £4209 = £8361$  is the personal allowance.

### **National insurance contributions**

$$\text{C2 NIC} = £3.45 \text{ per week} \times 52 = £179$$

C4 NIC:

We have £3k C4 loss brought forward to reduce the profits subject to C4 NIC of 106717. Therefore only £103717 is subject to Class 4 NIC (106717-3000).

$$0 - 12570 @ 0\% = 0$$

12570 - 50270 @ 9% = 3393  
50270 - 103717 @ 2% = 1069

Total Class 4 NIC due = 4462