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**Chartered
Institute of
Taxation**
Excellence in Taxation

am Date of Examination

- Tick box if you have answered in accordance with Scots Law
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Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

- | | |
|--|---|
| <input checked="" type="checkbox"/> Taxation of Owner-Managed Businesses | <input type="checkbox"/> Taxation of Individuals |
| <input type="checkbox"/> Domestic Indirect Taxation | <input type="checkbox"/> Cross-Border Indirect Taxation |
| <input type="checkbox"/> Inheritance Tax, Trusts & Estates | <input type="checkbox"/> Taxation of Major Corporates |
| <input type="checkbox"/> Human Capital Taxes | |

- Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

- Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
- Write on both sides of the page.
- Not write in the margin areas indicated.
- Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
- Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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Foodles Ltd

Adjusted trade profit

17 months ended 31 March 2019

	Note	€	€
Net loss			(50,120)
Adjustments:			
Dishes and bowls	8	(250)	
Depreciation	1	17,000	
Profit on sale of assets	2	(6,500)	
Premises costs	3	6,500	
Advertising	4	2,500	
Computer running costs	5	750	
Client gifts	6	400	
Legal and prog fees	7	<u>250</u>	
Capital Allowances			20,650 20,900
			<u>20,900</u>
Adjusted trade profit before CA's			(29,220) (29,220)
			(29,17)

WI

Foodies

Capital Allowances computation

12 months to 31 October 2018

	AIA	MP	SR	Allowances
TWDV b/f		-	-	
Additions:				
Plant transferred		60,000		
Flat top grill	1,000			
Fridge		-		
Furniture	1,500			
Freezer	400			
Dishes and bowls	-			
	2,900	60,000		
AIA@100%	(2,900)			2,900
WDA@18%		(10,800)		10,800
TWDV c/f		<u>49,200</u>		
Allowances				<u>13,700</u>

Notes

- Plant transferred from connected party therefore does not qualify for AIA.

◦ Fridge and freezer allowable as plant per List C,
CAA 2001, s23

◦ Fridge disposal at lower of cost or proceeds, therefore £Nil
Stripped out of pool

◦ Dishes and bowls likely to be 'Revenue' given
useful life of less than 2 years. Full deduction taken in
period

WZ

Fondles

Capital Allowances computation

5 months ended 31 March 2019

	AIA	MP	SR	Allowances
TWDV b/f		49,200		
Disposals:				
Catering truck		(30,000)		
		19,200		
Additions:				
Food prep unit	500			
Two-ring burner	750			
	1,250	19,200		
AIA @ 100%	(1,250)			1,250
WDA @ 7.5%	*	(1,440)		1,440
Allowances				<u>2,690</u>

Notes:

◦ Catering truck disposal capped at lower of cost (£30k) and proceeds (£40k)

◦ AIA limit of £83,333 ($\frac{5}{12} \times 200,000$)

WDA allowances capped at 7.5% ($189 \times \frac{5}{12}$)

Foodles Ltd

Corporation tax computation

Period ended 31 October 2018

Period ended 31 March 2019

	£		£
Trade loss	(20,626)	Trade loss	(8,594)
CAs	(13,700)	CAs	(2,690)
CA Capital Assets expensed	(275)		
Loss	<u>(34,601)</u>	Loss	<u>(11,284)</u>
CT@19%	-	CT@19%	-

NOTES for adjustments

1. Depreciation is disallowed by statute as it relates to capital assets. Relief given instead by capital allowances.
2. Profit on asset disposals also capital in nature so disallowed. Adjustments will be made through CA computation.
3. Provisions only allowable where ~~the~~ it is specific in nature. Provisions can only be deducted where they are an obligation which:
 - arises from a past event;
 - it is probable that economic benefits will transfer; and,
 - a reliable estimate of the amount can be made

As Kate's provision is in respect of 'future work', it does not meet the conditions.

◦ New building sign is capital in nature and ~~not capital~~ would qualify for capital allowances.

4. Advertising is generally allowable where it is not capital in nature and is 'wholly and exclusively' incurred for the trade.

There is doubt over whether the sponsorship meets the above condition given Kate is a board member and is receiving a benefit (the tickets). As such, it is disallowed in full.

5. Website development costs are capital in nature given the website should have a useful life of 2 years or more.

The costs will qualify for capital allowances at the 18% rate.

6. Client entertainment is disallowed by statute.

Client gifts are disallowed unless:

- they are £50 or less;
- have a clear advertisement of the business;
- are not ~~wine~~ alcohol, tobacco or food.

As such, the wine is disallowed but the drinks are allowable.

7. Company formation costs are capital in nature ~~and~~

QUESTION NUMBER

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QS

HANDOUT NOTES

'Accruals Basis'

The accruals basis is the standard means of preparing financial statements and is required for accounts being prepared in accordance with generally accepted accounting principles ('GAAP').

Under the accruals basis, income and expenses ~~is~~ would be recognised when it is receivable and payable respectively.

A useful example would be the treatment of interest.

Any bank account may 'accrue' interest at, for example, 2% ~~or 1%~~ per year, on a balance of £1,000.

The accruals basis would require income of £20 to be recognised, even if the bank had not paid you the interest.

Given the above, as tax generally follows the accounts, your sole trade/company will be taxed on income and expenses ~~is~~ in the accounts, even

where you may not have received or paid the
~~the~~ amounts.

'CASH BASIS'

An alternative to the accruals basis is the
cash basis.

This is not available to incorporated companies,
~~only sole~~

Under the cash basis, income and expenses are
recognised only where they are received and paid
respectively.

Accounts are not required to be prepared under GAAP.

While beneficial, there are conditions for adopting the
cash basis, which are:

- Turnover cannot exceed £150,000 in the preceding
tax year to first adopt
- Once adopted, the cash basis must be used

until turnover exceeds £300,000 or it is no longer appropriate to not use GAAP following a change in circumstances.

#

The implications of using the cash basis are:

- No capital allowances can be claimed with the exception of an cars.
- Capital expenditure will be expensed when paid if the asset would qualify for capital allowances.
- Losses are restricted to off-set trade income only, although relief in the first 5 years of trading is still allowable.
- Interest deductions will be capped at £500 p.a., although lease/HP interest is exempt from this rule.

QUESTION NUMBER

5

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Calculation of Income tax and NIC2) Sole trader

Income tax

Year to 31 Mar '19

NSI

Trade profit 65,000

Personal Allowance (11,850)

Taxable income 53,150

34,500 @ 20% 6,900

18,650 @ 40% 7,460

Income tax liability 14,360

NIC

Class 2: (53 x 2.95) 156

Class 4:

(46,350 - 8,424) @ 9% 3,413

(65,000 - ~~8,424~~^{46,350}) @ 2% 373Income tax and NIC 18,302

Limited Company

£

Trade profits	65,000
Salary	<u>(8,424)</u>
Taxable profit	56,576
CT@19%	<u>(10,749)</u>
	45,827
Dividend	<u>(45,827)</u>
Retained profit	Nil

'Individual'

	NSI	Divs
Salary	8,424	
Dividend		<u>45,827</u>
	8,424	45,827
Personal allowance	<u>(8,424)</u>	<u>(3,426)</u>
Taxable income	-	42,401

Income tax:

£

2,000 @ 0%	-
32,500 @ 7.5%	2,438
7,901 @ 32.5%	<u>2,568</u>
	<u>5,006</u>

Take-home pay

	<u>Sole trade</u>	<u>Company</u>
Profits	65,000	65,000
GT	-	(10,749)
Income tax	(14,360)	(5,006)
NIC	<u>(3,942)</u>	<u>-</u>
Pay after tax	<u>46,698</u>	<u>49,245</u>

- Savings with company off-set by additional costs/administration of a running a company.

Q3

Warehouse 1 - 30 April 2018

The disposal of the initial warehouse is the disposal of a single asset while business is continuing.

As such, it will not meet the conditions of Entrepreneur's relief as this requires business to cease ~~at the time of~~ and the asset to be disposed of within 1 year.

Donald owned the warehouse for many years, therefore the ownership condition (asset used in the business for a year) was met.

The disposal will be taxable at 20% as Donald is a higher rate taxpayer.

Capital gains tax will be due 31 January 2020.

The tax due will be:

	£
Gain	135,000
Annual Exemption	(11,700)
	<u>123,300</u>
CGT@20%	<u>24,660</u>

~~The stock disposed.~~

Warehouse 2 - 12 March 2019

The second warehouse disposal will qualify for Entrepreneur's relief as:

- It was an asset used in the business at time of cessation;
- It was owned for a period of one year up to the date of cessation; and
- It was sold within one year of cessation (12 March 2019)

The rent of the property is irrelevant as this is not an associated disposal, therefore the gain will qualify in full.

The gain will be taxable at 10% with the tax due on 31 January 2020.

The CGT payable will be:

	£
Proceeds	500,000
Cost	(275,000)
	<u>225,000</u>
CGT@10%	<u>22,500</u>

Lifetime limit remaining: £10m - 225K = £9,775,000

'Debtors/Cash'

The cessation of trade will have no CGT implications for the debtors/cash in the business.

'Stock' / Van / Saw

Stock will be deemed disposed of ~~at~~ at price paid (£16K), therefore a trading loss arises. No CGT consequences.

Similarly, the van/timber saw will be adjusted for through capital allowances computations, therefore no CGT consequences.

'Customer List'

Customer List will also be a disposal qualifying for Entrepreneur's relief Z, as it meets the same conditions as the 'warehouse Z'

	£
Proceeds	300,000
Cost	<u>(-)</u>
	<u>300,000</u>
CGT @ 10%	<u><u>30,000</u></u>

Also payable 31 January 2020

Life time limit: $9,775,000 - 300,000$
 $= \underline{\underline{9,475,000}}$ remaining.

Termination payment

On cessation of trade, termination payments will be an allowable deduction up to four times the statutory redundancy.

As such, Donald will be allowed a trading deduction of $(£4,000 \times 4) = £16,000$.

The excess of £9,000 will be added back to trade profits in 2018/19.

The payment to the employee is non-contractual and unexpected, therefore will fall within s401 ITEPA 2003.

The full £25,000 is within the £30,000 exemption and is therefore exempt from ~~IT~~ Class 1 NIC.

GreenBuild LLP

'Basis period'

Victoria joined the partnership on 1 July 2018, the 2018/2019 tax year.

The opening year (commencement) rules will apply. She will be taxed as follows:

2018/19: 1 July '18 - 5 Apr '19

2019/20: 1 Apr '19 - 31 Mar '20

2020/21: 1 Apr '20 - 31 Mar '21

Minimal (no) overlap profits will arise as the year-end of GreenBuild is 31 March

Victoria's assessable profits for 2018/19 (subject to any adjustments) would be:

	£
Fixed Profit share ($6,000 \times 9$)	54,000
Variable share ($10\% \times 60,000$)	6,000
2018/19 profits	<u>60,000</u>

'LLP taxation'

As indicated above, ~~£~~ while the legal form of a LLP is akin to a company, partners will be taxed similarly to individuals in a normal partnership.

Income tax and Class 2/4 NIC will apply to partnership profits allocated to Victoria.

~~Victoria~~ ~~will~~ Where any losses arise, Victoria's relief will be restricted to the lower of £25,000 and her unrelieved capital contribution, currently £10,000.

'Tax/NIC responsibilities of LLP'

GreenBuild LLP may be caught by anti-avoidance legislation ~~on~~ on the remuneration of Victoria.

Anti-avoidance exists to catch ~~the~~ LLP profit allocations which are 'disguised employment'

These rules in s 863(B-D) of ITDIA 2005 apply where:

- A: at least 80% of a partner member's salary is fixed; or without reference to profits/losses of the LLP.
- B: Victoria does have significant influence over the LLP's affairs; and,
- C: Victoria's contribution to the LLP is less than 25% of her profit share.

Condition A is met as Victoria's fixed salary is 90% ($54,000/60,000$).

Condition C is met as Victoria's contribution is only 17% of her salary.

It is unclear whether Condition B is met. ~~It~~ It is noted that the two founding members undertake strategic management which would suggest that it is, however consideration should

be given to whether Victoria has any voting power

On the assumption that Condition B is met, Green Build LLP would be required to treat Victoria as an employee for tax purposes

Her deemed salary would be deductible from partnership profits but would be subject to Class 1 NICs.

~~Green Build~~

PAYE and NIC requirements

EMAIL

To: Bella

From: Tax Adviser

SUBJECT: Tax Implications - various

Date: 5 November 2019

P.

Hi Bella,

I have outlined below the tax implications of the various activities you are proposing to undertake.

PAYE and NIC requirements

A company is obliged to operate pay as you earn ('PAYE') for each employee and notify HMRC of the salary and national insurance contributions for its employees each month.

~~Assuming you will pay your employees monthly~~

~~All~~ Employers must operate 'Class 1' National Insurance on each of its employees pay calculated as 13.8% for any annual pay exceeding £8,424

~~to the employer~~ You will be required to provide a 'Full Payment Submission' (FPS) to HMRC ~~by~~ on the 22nd of each month (19th if filing on a paper copy) outlining the income tax and Class 1 due. Payment of the tax will also be due on this date.

~~to the~~ Where any benefits are provided that are not processed through PAYE, any income tax due is required to be reported to the employees to enable them to complete their self-assessment

This should be done by 6th July following the end of the tax year on form P11D.

The value of the benefits will be subject to Class 1A NIC for ~~the~~ the company, payable at 13.8%. This should be reported to HMRC using form P11Db and the class 1A paid to

HMRC by 22nd of July.

The medical insurance provided to the employees will be a taxable benefit of £500, therefore Class 1A of £69 will be due per employee.

The FTS that the employees ~~pay~~ would have paid is irrelevant as the value of a benefit is generally the marginal cost to the employer. If there are any other benefits being provided, please let me know.

In addition ~~to~~ to the above, a P60 will be required to be issued to each employee by 31 May each year, outlining the income tax and NIC they have paid on their annual salary.

When you hire a new employee, you should ensure you request a copy of their P45 from any former employer to enable you to calculate the cumulative tax paid to date.

You should ask each employee whether:

- this is their first job since 6 April
(PAUC operated normally/cumulative basis)
- they had another job since 6 April
(proportion of personal allowance used); or,
- they have another job (assume no personal allowance left).

Hire Purchase / Finance Lease

The tax treatment of assets ~~to be~~ acquired or leased will depend on whether ownership of the asset is deemed to pass to Hyperion Ltd.

Generally, hire purchase contracts are such that the leasee is deemed to own the asset on the commencement of the lease.

Therefore, when the asset is first brought into use in the business, the full £65,000 will qualify for capital allowances at the

main pool rate of 18%. Where any annual investment allowance remains, a deduction of 100% of the expenditure could be taken in the period

Conversely, ~~the~~ assets under finance lease may not be deemed to pass ownership to the company.

Generally, where the lease is not a 'long-funding lease' with a term of over 50 years (unlikely in this case given the nature of the assets), the cost of the lease will not qualify for capital allowances.

Instead, deductions will be given for the accounting depreciation on the assets in each period, and also for any associated interest paid on the lease.

Gift of Shares

The gift of shares to Frank will ~~be~~ ~~yield~~ yield an immediate income tax charge for Frank.

As Frank is obtaining a 30% holding, he will be subject to tax on the £4,500 market value of the shares.

Assuming there are no agreements in place for Frank to sell the shares, there will be no requirement to ~~report~~ ~~the~~ ~~shares~~ charge Class 1 NIC on the shares.

Instead, the gift should be reported on ~~the~~ P11D for Frank at the end of the tax year.

The gift will also not be subject to Class 1A.

I hope the above is clear.

Yours Sincerely,

TAX ADVISER

Q1~~Re-Furb Ltd~~

MEMORANDUM

TO: ANGELA BARTON

FROM: TAX ADVISER

SUBJECT: RE-FURB LTD - CESSATION

~~# + In~~

Angela,

I have outlined below the Corporate Tax implications of the proposed cessation of Re-Furb Ltd.

CAPITAL ALLOWANCES

As at 1 July 2018, the company has £250,000 of tax-written down value brought forward. On the company's cessation on 30 November 2019, any tax-written down value in the pools will be deemed to be disposed of, triggering balancing allowances.

We would wish to maximise allowances in the

period to cessation ~~to~~ to maximize terminal loss relief, therefore it is recommended to disclaim capital allowances in the period to 30 June 2019

The s198 election on fixtures restricts disposal proceeds to £1.

The capital allowances claim in the period to 30 November 2019 is therefore:

	MP	Allowances
TWDV b/f	250,000	
S198	(1)	
Disposals	(100,000)	
	149,999	
	150,000	
	149,999	149,999
Balancing Allowance	(150,000)	150,000
	-	
		149,999
Allowances		150,000

Period to 30 November 2019

The cessation of trade on 30 November 2019 will trigger an end to a Chargeable Accounting Period for the company, such that a tax return will be required for the 5 month period from 1 July 2019 to 30 November 2019.

The trade result for this period is expected to be:

	£
Trade profit	-
Redundancy costs	(25,000)
Trade Debts impaired	(45,000)
Capital Allowances (see above)	$\frac{149,999}{\cancel{(149,000)}}$
Loss to cessation	$\frac{229,999}{\cancel{(229,000)}}$

In addition to the above, a chargeable gain will arise on the disposal of the property on 15 October 2019.

Therefore the ~~the~~ corporate tax computation for 30 November 2019 will be as follows: (subject to loss relief).

	£
Trade	-
Chargeable Gain	<u>300,000</u>
	<u>300,000</u>
GT@19%	57,000

~~Losses available~~

Loss Relief

	30 June 2016	30 June '17	30 June '18	30 June '19	30 Nov '19
Trade	10,000	-	100,000	-	-
£ s37	(10,000)	-	-	-	-
s45	-	-	(50,000)	-	-
£ Gains					300,000
	-	-	50,000	-	300,000

Loss Memo:

Loss to 30 June '19	£ 250,000
Loss to	229,999

As De-Furb has ceased to trade, ~~the~~ terminal loss relief is available to carry back the loss in the final 12 months against the previous 36 months of total profits.

Given the lack of profits however it would be easier to make s.37(3)(b) claim on the ~~the~~ 30 June 2019 profits to wipe out the remaining £50,000 of profits.

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