THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Owner-Managed Businesses

May 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Boxtransfer Ltd was incorporated in 2010 and manufactures and distributes packaging materials. The company draws up its accounts to 31 December each year.

On 30 June 2024, the company acquired a new manufacturing site for £810,000 due to the expansion of its operations. This cost comprised:

	£
Building	470,000
Land	250,000
Air conditioning	25,000
Lift	14,000
Electrical works	12,000
Fixed partitions	5,000
Legal fees including Stamp Duty Land Tax	34,000
Total cost	810,000

The building on the site was brought into use by Boxtransfer Ltd on 1 August 2024. No information was received from the seller as to how they treated the various items in their own Corporation Tax computation. Online research indicates that they acquired and started to use the building in the business in 2019 when it was first constructed by the developer.

During the year ended 31 December 2024, Boxtransfer Ltd also acquired the following assets:

Purchase date	Description	Notes	Cost
			£
1 July 2024	New production machine	1)	75,000
31 July 2024	Strengthening building floor	2)	12,000
4 August 2024	Second-hand lorry		32,000
28 August 2024	New packing machine		715,000

Notes

1) This was financed through a hire purchase agreement over five years. The company paid an initial deposit of £75,000 on 1 July 2024 (shown above) and will then pay two instalments on 1 January and 1 July each year of £29,000, starting on 1 January 2025. The cost of the machine if acquired outright would have been £320,000. The machine was brought into use by Boxtransfer Ltd on 1 August 2024.

2) To accommodate the installation of this new production machinery in the building, the floor also needed to be strengthened at a cost of £12,000.

During the year ended 31 December 2024, the company disposed of the following assets:

Original purchase date	Description	Proceeds	Original Cost
		£	£
June 2022	Pressing machine	32,000	157,000
May 2019	Boiler	15,000	78,000

The super deduction was claimed when the pressing machine was acquired.

Boxtransfer Ltd had brought forward balances at 1 January 2024 in its main pool of £287,000 and special rate pool of £12,000.

Requirement:

1) Calculate with explanations, the plant and machinery allowances available to Boxtransfer Ltd for the year ended 31 December 2024. (12)

2) Explain whether the structures and buildings allowances is available in respect of the new manufacturing site acquisition. Calculations are NOT required. (3)

Total (15)

2. Harriet began trading as a sole trader on 1 June 2024. She runs a pizza restaurant.

Her draft profit and loss account prepared on the accruals basis for the period ended 31 March 2025 is as follows:

	Notes	£
Turnover		185,420
Cost of sales		(132,225)
Gross profit		53,195
Staff costs		(60,560)
Premises costs	1)	(72,000)
Set-up costs	2)	(28,750)
Office and administration costs	3)	(9,092)
Sundry costs	4)	(12,600)
Net loss for the period		(129,807)

Notes

1) Premises costs include a £54,000 lease premium in respect of a 15-year lease of the restaurant which was signed on 1 June 2024.

2) In preparation for trading, the business incurred the following set-up costs:

		£
15 May 2024	Pizza oven	21,000
27 May 2024	Dining tables and chairs brought from Harriet's mother	5,750
31 May 2024	Restaurant management software	2,000
		28,750

3) Harriet bought a computer for her personal use on 1 December 2022 for £1,500. Since opening the restaurant, she has used the computer 75% of the time for business purposes. She has included the original £1,500 cost of this computer within office and administration costs. The market value of the computer on 1 June 2024 was £600.

4) Sundry costs include £1,000 in respect of medical insurance for employees. No additional tax costs have been accounted for in connection with the medical insurance.

Harriet expects tax adjusted trading profits of £62,000 for the year ended 31 March 2026.

Prior to opening the restaurant, Harriet received the following employment income:

	£
2021/22	182,000
2022/23	184,000
2023/24	197,500
2024/25	46,000

Harriet receives no other income.

Requirement:

1) Calculate, with explanations, Harriet's tax adjusted loss for 2024/25 and explain the most beneficial claim for her loss. (18)

2) Explain the National Insurance implications for Harriet, assuming she makes the most beneficial claim for her loss. (2)

Total (20)

3. Maxine is a director and 30% shareholder of Grabel Technologies Ltd, a company which manufactures electrical components. She subscribed for her 30,000 £1 ordinary shares when the company was incorporated in 2002 and became a director at the same time.

Grabel Technologies Ltd's total assets have a market value of £8 million. These assets are mainly trade related, except for an investment in shares which has a market value of £1.2 million. The dividend income from this investment accounts for around 12% of the company's total revenue each year.

Maxine spends 60% of her working week on her director's duties for Grabel Technologies Ltd. The remaining 40% of Maxine's working time is spent managing various other personal investments.

One of Maxine's investments is a factory which is used by Grabel Technologies Ltd in its trade. Maxine acquired the factory for £128,000 on 5 April 2005 and immediately rented to Grabel Technologies Ltd at 70% of the market rent.

In March 2022, Maxine sold one of her other investments, realising a capital gain of £165,000 upon which she claimed Business Asset Disposal Relief. Following this disposal, Maxine decided to reduce her working hours at Grabel Technologies Ltd and increased the rent that she charged the company for the factory to 90% of the market rent from 6 April 2022.

On 5 October 2024, Maxine sold her shareholding in Grabel Technologies Ltd for net proceeds of £800,000. The factory continued to be used by Grabel Technologies Ltd until Maxine sold it on 5 April 2025 for net proceeds of £375,000.

Maxine is a higher rate taxpayer and has not disposed of any other capital assets in 2024/25.

Requirement:

Calculate and explain Maxine's Capital Gains Tax liability arising in 2024/25, including any applicable reliefs. (15)

4. Energy Drinks Ltd has 20 employees. 11 of these employees are basic rate taxpayers and the remaining nine are higher rate taxpayers. None of the employees are Scottish taxpayers.

In the year ended 31 March 2025, Energy Drinks Ltd provided the following staff benefits:

<u>Relocation of a new director</u>

The company recruited a new sales director in May 2024, who previously lived in Spain. The director, a higher rate taxpayer, was given £10,000 by the company to help with the costs of buying and moving to a new property in the UK.

<u>Staff gifts</u>

The company gave one employee, a basic rate taxpayer, a dinner set costing £250 plus VAT as a wedding gift.

At Christmas, each employee was given a shopping voucher with a value of £40. This voucher was not redeemable for cash.

<u>Staff events</u>

The company held its annual Christmas party in December 2024. The total cost of the event to Energy Drinks Ltd was £4,000 including VAT and it was attended by all staff.

In addition to the Christmas party, the company held a one-off event in August 2024 to celebrate the completion of a major project. The company paid for all staff to attend a horse racing event, their hotel and their transportation. The total cost of this event to Energy Drinks Ltd was £9,000 including VAT.

Energy Drinks Ltd does not want its staff to suffer any tax cost in respect of these benefits, wherever possible. No amounts in respect of the items above have been subject to PAYE or included within employees' tax codes.

Requirement:

1) **Explain whether the benefits above should be included in a PAYE Settlement Agreement and the process of registering for a PAYE Settlement Agreement.** (7)

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 Corporation Tax purposes.** (8)

Total (15)

5. Ginos Ltd operates a takeaway kebab shop and has traded since 2018.

Until 1 June 2022, Ginos Ltd was solely owned by Zachary. However, on 1 June 2022, Lucy acquired 44% of the shares in Ginos Ltd from Zachary.

There were further changes in the ownership of Ginos Ltd on 1 June 2024, when:

1) Lucy purchased additional shares from Zachary, increasing her total shareholding in the company to 49%.

2) Lucy's husband, Russell, purchased 5% of the shares in the company from Zachary.

3) Zachary gifted 5% of the shares in the company to his daughter, Francesca.

As at 31 March 2024, Ginos Ltd had £55,000 of carried forward trading losses. For the period from 1 April 2024 to 31 May 2024, the company made a taxable profit of £15,000.

Despite this, Lucy and Russell decided that some changes were required to Ginos Ltd's business operations. On 1 June 2024, they changed the menu so that some of the more unpopular items were removed. They also made some of the senior management team redundant in an effort to cut costs within the business. These changes resulted in the company making a taxable profit of £30,000 in the period from 1 June 2024 to 31 August 2024.

On 1 September 2024, the business closed for one month and the premises were converted into a wine bar. This was a success and taxable profits of £100,000 were generated in the period from September 2024 to 31 March 2025.

Requirement:

1) **Discuss the Corporation Tax implications of the changes in share ownership and business operations of Ginos Ltd.** (10)

2) **Calculate the Corporation Tax payment due by Ginos Ltd for the year ended 31 March 2025, explaining the treatment of the carried forward losses.** (5)

Total (15)

6. Peter Ellenshaw intends to commence business as an investment adviser on 1 June 2025.

In order to provide his advice more efficiently, Peter hopes to develop an AI-based investment software application. He has agreed to hire a data scientist, Ellen, who will be paid £4,760 per month from 1 June 2025. Employer pension contributions for Ellen will be £362 per month. Both Ellen and Peter are expected to spend 50% of their time on qualifying R&D work during the period to 31 March 2026.

Testing of the software, at an expected cost of £10,000, will be carried out by a company in Asia. Similar testing in the UK would cost £25,000.

Peter estimates that his accounting profit before tax for the period to 31 March 2026 will be £80,000.

Peter will either carry on the business as a sole trader or through a limited company. Either way, his first set of accounts will be drawn up for the period ended 31 March 2026. If he decides to use a limited company, he will take a salary of £12,570 and extract the remainder of the accounting profits as a dividend on 5 April 2026. He anticipates that using a company would incur additional accountancy costs of £750. Neither his salary nor the accountancy costs are included in the estimated profit figure above.

Peter will not receive any other income in the 2025/26 tax year.

Requirement:

1) **Calculate whether carrying on the business as a sole trader or as a limited company would provide the best after-tax position for Peter in 2025/26.** (16)

2) **Explain why it may be beneficial for Peter to operate the business through a limited company, as opposed to as a sole trader.** (4)

Total (20)