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Chartered Tax Adviser Examination

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Application and Interaction Question 3
Taxation of Owner-Managed Businesses

Suggested solution

REPORT

From : Beaufort Consultancy

To : Andrea Whitley (`AW`) and Mungo Whitley (`MW`)

Date : 02 May 2018

Proposed Disposal of Whitley Precision Tools Ltd (`WPTL`) and Emigration of Andrea and Mungo Whitley

Introduction

This report addresses the principal UK taxation implications of:

1) The proposed disposal of WPTL either by way of an asset sale followed by a winding up or a share disposal.
2) The possible emigration of AW and MW to Wellingtonia.

As instructed, VAT implications are not considered.

Executive Summary

Asset Sale

A corporation tax liability for the year ended 31 October 2018 of £129,604 arises.

If a formal liquidation is then used to extract the proceeds, after tax proceeds will be approximately £714,000 for AW and £583,900 for MW.

Share Sale

Based on current forecasts, a trading loss will arise for WPTL`s year ended 31 October 2018 generating a corporation tax refund of £11,407.

If sold to HEL for cash, after tax proceeds of approximately £786,900 for AW and £644,200 for MW arise. If sold for a mixture of cash and loan notes these increase to £812,300 and £665,100 but consideration of possible bad debt risk associated with loan notes is required.

If sold to Joe Whitley (`JW`) whilst gift relief will be available the excess of actual proceeds over cost remains chargeable and a further restriction applies for chargeable non-business assets.

Emigration

If you emigrate from the UK it may be possible to avoid UK tax liabilities upon disposing of your WPTL shares but careful consideration of the temporary non residence rules will be required.

Asset Sale to Harrow Engineering Ltd (`HEL`)

Under this route WPTL would sell its trading assets to HEL on 31 October 2018. The company's liabilities, trade debtors, cash and investments would be retained. Appendix I shows that the total consideration payable by HEL for its selected assets will be £1,325,000.

Cessation of WPTL Trade

WPTL would cease trading on 31 October 2018 causing the end of an accounting period (`AP`) for corporation tax purposes (although because AP`s cannot exceed twelve months an AP would in any event end on 31 October 2018).

The trade disposal causes a balancing event for capital allowance purposes on 31 October 2018. A balancing charge arises on the main pool amounting to £161,000 and a balancing allowance of £1,500 on the special rate pool (see Appendix II). It should be noted that ceasing trade prevents a claim for annual investment allowances in respect of the purchase of the two lathes.

Chargeable gains arise for WPTL on the sale of the freehold factory and goodwill (being `old` goodwill) to HEL. Because they qualify for capital allowances the two lathes are not eligible for the wasting assets exemption. As their market value exceeds cost they will therefore also be regarded as chargeable assets. Any chargeable gains on the disposal of smaller items of equipment will be covered by the small chattels exemption because none of these has an individual value greater than £6,000. Because capital allowances were available the loss arising on the disposal of plant for £25,000 will not be an allowable capital loss.

Appendix II shows that total chargeable gains amount to £446,455 and forecast total taxable profits are £671,455 for the AP ended 31 October 2018 giving rise to a corporation tax liability of £127,576 payable by 1 August 2019.

Winding Up WPTL

Following the sale of its trade and assets WPTL will have a cash balance of £1,550,000 (£1,325,000 proceeds plus £225,000 forecast cash balance). Assuming debtors of £115,000 are collected and liabilities totalling £180,000 are paid, the cash balance becomes £1,485,000.

The sale of the investments will realise a further sum of £85,000 and an additional corporation tax liability of £9,255 (£48,710 x 19%) (see Appendix II). Ignoring liquidation costs but after this final corporation tax liability, the residual cash balance becomes £1,433,169 (£1,485,000 + £85,000 - £127,576 - £9,255).

This amount will then be distributed to the shareholders, 55% (£788,243) to AW and 45% (£644,926) to MW either by applying to have the company struck off at Companies House or a formal liquidation.

Striking Off

If a striking off is selected (perhaps to save liquidation fees) because the total distributions exceed £25,000 they will be subject to income tax, rather than capital gains tax (`CGT`) rules. Most of these distributions will be taxed at marginal income tax rates of 38.1% which is higher than if the distributions are capital making this dissolution route unattractive.

Formal Liquidation

With a formal liquidation, distributions made after the commencement of winding up (ie after the liquidator has been appointed) are treated as capital distributions and therefore subject to CGT rules with the gain calculated as the difference between the distributed amount and the taxpayer's base cost.

AW`s original base cost was £50,000 (the probate value of the shares inherited from her father). The transfer of 450 of these shares to MW in July 1995 would have been for a no gain/no loss consideration ie simply at 45% of AW`s base cost. Your base costs are therefore £27,500 and £22,500 respectively.

Appendix IV shows, assuming the distributions occur in one tranche, the chargeable gains arising, after accounting for the tax free annual exempt amount, for AW and MW are approximately £749,000 and £611,000 respectively.

CGT Rate Applying

Normal rates of CGT are 10% for gains falling into a taxpayer's residual basic rate band (ie after taking account of taxable income) and then 20%. Where a disposal qualifies for entrepreneur's relief (`ER`), however, all of the qualifying gain is charged at 10%.

A share disposal qualifies for ER if the (i) taxpayer owns at least 5% of the underlying company's ordinary shares and voting rights (ie is the individual's `personal company`); (ii) taxpayer is an employee or officer of the underlying company; and (iii) the underlying company is a trading company.

The above conditions usually need satisfying throughout the 12 month period prior to the disposal. However, as in the case of WPTL, where a trade ceases they need satisfying

throughout the 12 months prior to the trade cessation and the disposal(s) must occur within three years of the cessation.

ER needs to be claimed such that if the capital distributions are made by 5 April 2019 the claim needs to be made by 31 January 2021.

An issue is whether WPTL qualifies as a trading company. A trading company is defined as one whose activities exclude `substantial` non-trading activities. HMRC interpret `substantial` as meaning more than 20%. In determining this turnover, asset base and time spent in managing the company's activities are considered.

The only potential problem with WPTL is the existence of non-trading assets (quoted investments and potentially surplus cash not needed to meet working capital commitments). Using asset values at 31 October 2018 these represent 21.38% of the balance sheet asset value (310,000/1,450,000). However, the value of any unrecognised assets should also be taken into account. Incorporating goodwill the percentage falls to 17.71% (310,000/1,750,000).

Additionally and in any event the factors are considered `in the round` in building up an overall picture of whether a company is trading, with no one factor being considered in isolation.

WPTL therefore appears to qualify as a trading company and the distributions during the course of its liquidation will qualify for ER, so the applicable CGT rate will be 10%.

The maximum CGT liabilities will therefore approximate £74,900 for AW and £61,100 for MW. If the distributions are made in the 2018/19 tax year these liabilities will be payable by 31 January 2020.

It may be beneficial to spread the distributions over several tax years (to take advantage of further annual exempt amounts and spreading the payment of any CGT liabilities) bearing in mind that ER will only be available for three years after cessation (i.e. until 31 October 2021). If so each distribution will be treated as a part disposal with the base cost determined by the fraction A/(A+B) where A = the distribution amount and B = the residual funds.

Double Tax Charge
It should be noted that an asset sale involves an element of double taxation – corporation tax on the sale of assets followed by further tax upon the extraction of the funds from the company.

Share Sale to Harrow Engineering Ltd
Under this route you will sell your shareholdings in WPTL to HEL on 31 October 2018. WPTL will then become a subsidiary company of HEL with its underlying trade simply continuing uninterrupted. There will therefore be no balancing adjustments for capital allowance purposes. A share sale also has the advantage of avoiding potential double tax charges delivering the proceeds directly to the shareholders.

Position for WPTL
A (large) claim for annual investment allowances can be made by WPTL for its AP ended 31 October 2018. As shown in Appendix III, a trading loss of £144,240 is therefore forecast to arise and no corporation tax liability arises for this AP.

It will be possible for WPTL to relieve £58,750 of this loss against taxable total profits for the AP ended 31 October 2017. WPTL will therefore be able to claim a refund of corporation tax amounting to £11,407 (£58,750 x 5/12 x 20% plus £58,750 x 7/12 x 19%). A claim for this will need to be made in the corporation tax return for the period by 31 October 2020.

£85,490 (144,240 – 58,750) of trading losses will remain. Normally these will be available to carry forward to set off against the next available profits from the same trade. This could reduce future corporation tax liabilities by £16,243 and is therefore potentially valuable. Where there has been a change in the ownership of a company (as in this case) and a major change in the nature or conduct of its trade occurs within the period three years before to three years after the change surplus losses cannot be carried forward. Depending upon their plans HEL may

therefore be unwilling to pay any additional consideration for these trading losses. This point should, however, be the subject of negotiation with HEL.

Sale Consideration
As shown in Appendix I the consideration for the shares under the straight cash option will be 1,581,407. 55% of this (£869,774) will go to AW with £711,633 going to MW.

Under the loan notes option the total consideration will be £1,631,407 comprising £1,000,000 in cash and £631,407 loan notes. It is assumed that this mix will be applied proportionately to both your shareholdings.

Position of AW and MW
The basic position is that the sale of your WPTL shareholdings will be taxed as a capital gain subject to CGT.

Consideration Entirely Cash
Appendix IV shows the chargeable gains arising in the 2018/19 tax year for AW and MW are approximately £831,000 and £678,000 respectively. Providing the shares are sold whilst you are still working for WPTL, as discussed above, these gains should attract ER. Maximum CGT liabilities of £83,100 for AW and £67,800 for MW will therefore become payable by 31 January following the tax year of disposal. After tax proceeds are therefore approximately £786,900 for AW and £644,200 for MW.

Consideration Partly Loan Notes
Loan notes are a means of deferring the payment of consideration until a later date. For tax purposes loan notes can either be in the form of qualifying corporate bonds (`QCB`s`) or non-QCB`s. A QCB is a loan written on `normal` commercial terms which can only be denominated in sterling and cannot be converted to shares. A non-QCB is a loan written on terms other than these.

Non-QCB`s
Where non-QCB`s are received in exchange for shares, providing the relevant conditions are satisfied, a chargeable gain is not realised on the exchange, rather the non-QCB will simply take over a pro-rata part of the base cost of the original shares. The disposal is therefore deferred until the new asset - the non-QCB itself – is disposed in the future. The gain on this future disposal will be the difference between the eventual redemption proceeds and this inherited base cost.

One of the main conditions to satisfy to obtain this treatment is that the exchange occurs for bona fide commercial reasons and is not part of scheme undertaken for tax avoidance purposes. It is possible and advisable to obtain an advance clearance regarding this from HMRC. This point is further addressed in the second part of this report dealing with your potential emigration.

Notwithstanding the fact that the underlying original shares themselves may have qualified for ER the gains arising on future non-QCB redemptions will not qualify (unless the vendor satisfies the qualifying conditions for ER in relation to the acquiring company). Future redemptions will therefore attract a higher CGT rate (20% rather than 10%). As before the gains attributable to the cash portion of the total consideration should, however, continue to attract ER.

Providing the conditions are satisfied and the non-QCB`s are fully redeemed on 31 October 2020 (ie in the 2020/21 tax year) as shown in Appendix IV the approximate chargeable gains under this route are summarised as follows:

Tax year	AW	MW
	£	£
2018/19 (cash)	522,000	425,000

2020/21 (non-QCB loan notes)	325,000	264,000

The maximum CGT liabilities will therefore be approximately £117,200 (52,200 + 65,000) for AW and £95,300 (42,500 + 52,800) for MW again payable by 31 January following the end of the relevant tax year. After tax proceeds are approximately £780,000 for MW and £639,000 for MW.

You mention that the loan notes will be redeemed on 31 October 2020. If there was a more flexible redemption period the opportunity exists to redeem over several tax years to take advantage of more than one year`s annual exempt amount or possibly meaning that part of the gains falls into your basic rate band and therefore subject to CGT at a lower rate.

It is possible, however, to make an election to effectively treat the consideration attributable to the loan notes as realised when the shares are exchanged. If made full ER should be available reducing the CGT liabilities to approximately £84,700 for AW and £68,900 for MW. If an election is made all the CGT will be payable by 31 January 2020 (i.e. there will be no deferral). With an election after tax proceeds are approximately £812,300 for AW and £665,100 for MW.

QCB`s

QCB`s are exempt assets for CGT purposes. No chargeable gain therefore arises on their disposal. This appears to make using QCB`s attractive. However, rules exist stating that the gain on the QCB part of the consideration is calculated at the date the shares are exchanged. No CGT disposal will be realised at this point, however, rather such gains are `frozen` and carried forward to be realised in the future as the QCB`s are redeemed.

Again the opportunity therefore exists to spread these gains over a number of tax years. As above these gains will not attract ER although an election is also possible to treat all the consideration as realised `up front`.

The same gains and potential CGT liabilities as summarised above will arise.

Bad Debt Risk

If an election is made to preserve ER it should be noted that whether QCB`s or non-QCB`s are used the `up-front` tax charge will remain even if the loan notes subsequently become worthless. It is therefore necessary to balance the higher total consideration receivable against this risk. It would also be important to mitigate this risk through the use of bank guarantees.

The tax position slightly improves with the use of non-QCB`s because if these become worthless a CGT capital loss can arise (equal to the proportionate part of the original base cost for the shares). Such capital losses could be used against other (current year or future) chargeable gains. This does not apply for QCB`s because they are exempt assets for CGT purposes.

Share Sale to Joe Whitley (`JW`)

In this event a 50% discount on market value will be offered giving cash consideration of £790,704 (1,581,407 x 50%) allocated £434,887 to AW and £355,817 to MW.

Because you and JW are connected the transaction will be deemed to occur at market value. The gains arising will therefore be the same as shown in appendix IV (full cash consideration).

Because the shares have been sold for less than their market value and they are in a personal unquoted trading company they qualify for gift relief. Subject to the below restrictions this reduces your gains to nil. The relieved gains are held-over against JW`s base cost for future purposes. The gains are therefore effectively deferred until a future disposal by JW.

Gift relief is, however, restricted:

(i) If some actual sale proceeds are received. An amount equal to the excess of actual proceeds over cost remains in charge.

(ii) When the underlying company has some chargeable non-business assets. The forecast value of all WPTL's chargeable assets at 31 October 2018 is £1,155,000 (500,000 + 270,000 (lathes) + 85,000 (non-business investments) + 300,000 (goodwill)). The qualifying gain will therefore be restricted by the fraction 85,000/1,155,000.

Thus whilst gift relief is possible this will be restricted. Claims will need to be made jointly between yourselves and JW by 5 April 2023. It is worth pointing out that any residual chargeable gain after gift relief should qualify for ER.

Potential Emigration from the UK

You are considering emigrating to Wellingtonia on 31 October 2018 either on a temporary or permanent basis. This part of the report considers the potential implications of this with particular reference to the proposed disposal of WPTL.

CGT Implications of Residence Status

As you are both currently UK resident (`UKR`) and UK domiciled you are currently liable to UK CGT on asset disposals wherever those assets are situated in the world.

With a few exceptions non-UK resident (`non-UKR`) individuals are, however, generally not liable to UK CGT on their asset disposals (even if located in the UK). The possibility therefore exists for you to avoid the UK CGT liabilities described above by disposing of your WPTL shares after you have become non-UKR.

This general rule is, however, superseded where individuals are deemed to be temporarily non-UKR or if the disposal involves the sale of UK residential property by a non-UKR.

Statutory Residence Test (`SRT`)

The SRT provides the basis for determining an individual's residence status. Broadly to be non-UKR for a particular tax year an individual must pass the automatically non-UKR tests or, failing this, demonstrate that they are insufficiently connected with the UK. This depends on inversely linking the number of days spent in the UK with specified connection factors (UK ties - such as having UK accommodation available or UKR close family). Broadly the more days present overseas the more UK ties are required to remain UKR for a particular tax year.

Strictly each tax year must be looked at as a whole. When leaving the UK, however, it is possible in certain permitted circumstances to split the tax year into UKR and non-UKR parts. This treatment can, however, only apply where the SRT produces a UKR result for the tax year as a whole.

The most relevant of the permitted circumstances is ceasing to have a home in the UK during the tax year. Providing the required conditions are satisfied the non-UKR part commences when the individual ceases to have a UK home.

For subsequent years the simplest way to ensure being non-UKR is to spend less than 16 days in the UK (one of the automatic non-UKR tests). If the automatic test(s) is not met, as briefly described above, there will be a need to consider the sufficient ties test to determine your ongoing residence status.

Temporary Non-Residence Rules

AW and MW also need to be aware of the temporary non-residence rules. An individual will be regarded as temporarily non-UKR if:

(i) In four out of seven tax years immediately before the tax year of departure he was UKR; and
(ii) The period of non-UKR is five years or less.

In these circumstances assets held whilst UKR but disposed of during the temporary non-UKR period will be subject to UK CGT in the tax year that the individual resumes UKR. To avoid

these rules applying it is therefore necessary to remain outside the UK for at least 5 years from becoming non-UKR.

Similar rules also exist to `catch` certain income distributions paid to an individual during a period of similarly defined temporary non-UKR.

These rules therefore effectively circumvent short-term emigration to avoid UK CGT and income tax on income distributions.

Application to Disposal of WPTL
If you emigrate on 31 October 2018, having spent more than 183 days in the UK, you will be regarded as automatically UKR in the 2018/19 tax year. If your house is sold on this date split year treatment should apply meaning you will be UKR for the period 6 April 2018 to 31 October 2018 and non-UKR for the period 1 November 2019 to 5 April 2019.

If a share sale occurs on 31 October 2018 (either to HEL or JW) because you are regarded as UKR on this date the UK CGT liabilities described in the first section of this report will continue to apply.

If commercially possible it would be preferable to renegotiate the sale date to a date after 31 October 2018 (and perhaps preferably to be safer after 5 April 2019). The gains should then escape UK liability although you will still need to fall outside the temporary non-residence rules described above (ie not return to the UK until at least 5 years after becoming non-UKR) otherwise they will be taxable upon your return to the UK.

If loan notes form part of the consideration the question arises as to whether the deferred element (which will materialise when you are likely to be non-UKR) will escape UK CGT. HMRC's likely view is that one of the main purposes of using loan notes in these circumstances was to avoid UK CGT and not for bona fide commercial reasons. As a result it is probable that the deferral reliefs described previously will not apply meaning that the full consideration will be brought into account at the original date of the share disposal (ie 31 October 2018 and therefore taxed as described above).

If an asset sale occurs, and the distributions (either capital or income in nature) are deferred until after 31 October 2018 (and again preferably until after 5 April 2019) they should escape UK CGT or income tax (although again subject to avoiding the temporary non-UKR rules).

Disposal of Residential UK Property
Providing your UK home is sold before emigrating (i.e. whilst you are still UKR) because this has only been used as your main residence no chargeable gain will arise when it is sold. This is because any gain arising will be covered by principal private residence relief.

You should be aware that under new rules recently introduced if you are unable to sell your home until after you emigrate and when you become non-UKR it is possible that a chargeable gain could arise for the portion of the gain attributable to the period between becoming non-UKR and sale. If this period is less than 18 months it will, however, be exempt.

With regards the sale of your home to your friend certain contracts are required to be in writing. Included in this category are contracts for the sale of land. At the pre-contract stage whilst sellers do not have any duty to disclose physical defects in the property they must disclose any defects in legal title and interests to third parties affecting the land that would not be revealed by normal searches and inspection. You should therefore ensure that your neighbour`s right of way over the rear of your garden is disclosed.

Once the parties are satisfied a contract detailing the final terms will be drafted and signed by each party. Contracts are then exchanged. Usually the buyer will pay a deposit (traditionally 10%) at this point. Up until exchange either party can withdraw from the transaction but upon exchange if either party pulls out the innocent party is entitled to remedy normally in the form of compensation (e.g. default of the deposit paid by the buyer at exchange).

Completion of the contract usually occurs four weeks later although this can be a shorter period. At completion your friend takes possession of the property and you will receive the balance of the proceeds. In return you will hand over the executed purchase deed in the form of a land registry transfer (or in the case of unregistered land the title deeds evidencing your previous ownership of the property).

[*Scots law - There is no specific sale contract although it is still not possible to sell via a verbal contract. Instead the contractual agreement is established by a series of solicitors' letters known as missives with a binding contract reached on acceptance of all points in a missive letter. This includes the date at which the deal will be treated as completed. As noted above, this process would include the disclosure of any defects in legal title and interest to third parties affecting the land. Once the missives are final, the withdrawal of either party is seen as breach of contract. Typically, no deposit is payable with full payment of all consideration being made on completion. A deed is prepared to convey the property and completion is determined by date of entry to the property*.]

Inheritance Tax (`IHT`)

IHT is chargeable on transfers of value (gifts) made by individuals who are UK domiciled (or deemed UK domicile). Assuming you retain your UK domicile status you will therefore continue to be liable to IHT on your worldwide assets irrespective of where they are located (ie emigration to Wellingtonia will have no effect).

If you decide to emigrate permanently it is possible to change your domicile. You should, however, be aware that you will continue to be treated as UK domiciled for IHT purposes for three years after ceasing to actually be UK domiciled. You will also remain liable for UK IHT on any assets that remain sited in the UK.

Because there is no gift element, a sale of your WPTL shares to HEL will not have any IHT implications. If, however, you sell your shares to JW the gift element will be a potentially exempt transfer for IHT purposes. No charge will arise on the gifts being made and these will become fully exempt if you survive them by seven years. If you do die within seven years the transfer value will be relieved by business property relief (`BPR`) at the rate of 100% provided JW still continued to own them (or replaced them with eligible replacement property). As with gift relief BPR will be restricted for any excepted assets not used for the purpose of WPTL`s business.

Any chargeable transfer value can also be reduced by (i) any available annual exemptions for the current and previous tax year (maximum of £3,000 for each year) and (ii) your nil rate bands (currently £325,000). IHT at 40% will then become payable (by JW) although this is then further reduced on a sliding scale by taper relief if you survive the gift by between three and seven years.

You should also be aware that once your WPTL shares are disposed you will have replaced a qualifying asset for BPR (at the rate of 100%) with non-qualifying cash. Exposure to IHT will therefore have increased significantly.

Appendix I
Asset Sale – Consideration receivable by company

		Market value £
Fixed assets	Goodwill	300,000
	Freehold factory	500,000
	Plant & machinery	425,000
	Vehicles	45,000
Current assets	Stock	55,000
Cash Consideration		1,325,000

Share Sale – Consideration receivable by shareholders

	£
Market value of balance sheet net assets	1,270,000
Add: off balance sheet goodwill	300,000
Add: additional corporation tax refund (re: AP 31/10/2017)	11,407
Total consideration	1,581,407

Appendix II
Assuming Trade & Asset Sale – Cessation of trade
Forecast Corporation tax Computation – Year Ended 31 October 2018

	£
Trading income before capital allowances	65,500
Add: balancing charge – main pool	161,000
Less: balancing allowance	(1,500)
Trading income	225,000
Chargeable gains	446,455
Taxable total profits	671,455
Corporation tax x 19%	127,576

Capital allowances

	Main Pool £	Special rate pool £
Tax written down value b/f	54,000	11,500
Additions – 2 lathes	220,000	
Disposal proceeds	(25,000)	
Lower of Cost/Sale proceeds - Note 1	(410,000)	(10,000)
Balancing charge	161,000	
Balancing allowance		1,500
	Nil	Nil

Note 1
The disposal value for the two lathes will be restricted to their original cost (ie 2 x £110,000 = £220,000). The residual value for assets within the general pool amounts to £190,000 (£425,000 plus £45,000 (vehicles) less £270,000 (value of two lathes) less £10,000 (vehicle included in the special rate pool)). The total disposal value that needs to be brought into account for the main pool is therefore £410,000 (£220,000 + £190,000).

Chargeable Gains

			£	£
Freehold factory				
Proceeds			500,000	
Less:	cost	7/1995	(175,000)	
	extension	7/2005	(50,000)	
			275,000	
Less:	indexation			
	(279-149.1)/149.1	= 0.871 x 175,000	(152,425)	
	(279-192.2)/192.2	= 0.452 x 50,000	(22,600)	
				99,975
Goodwill				
Proceeds			300,000	
Less:	cost		nil	
				300,000

Lathes

Proceeds			135,000	
Less:	cost	01/2018	(110,000)	
	Indexation			
	(279-274.5)/274.5			
	= 0.016 x 110,000		(1,760)	
			23,240	
x 2 lathes				46,480
Total chargeable gains				446,455
				======

Sale of Quoted Investments

Proceeds			85,000	
Less:	cost	7/2005	(25,000)	
	indexation			
	(279-192.2)/192.2 x 25,000		(11,290)	
				48,710
				======

Appendix III
Assuming Share sale - Continuation of trade
Forecast Corporation tax Computation – Year Ended 31 October 2018

	£
Trading income before capital allowances	65,500
Less: capital allowances	(209,740)
Trading loss	(144,240)
	=======

Capital allowances

	Main Pool £	Special rate pool £	Claimed £
Tax written down value b/f	54,000	11,500	
Disposal proceeds	(25,000)		
Additions:			
Lathes 2 x 110,000 =	220,000		
Annual investment allowance	(200,000)		200,000
	20,000		
WDA x 18/8%	49,000	11,500	
WDA x 18/8%	(8,820)	(920)	9,740
			209,740
Tax written down value c/f	40,180	10,580	======
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Appendix IV
Chargeable Gains Arising

Asset Sale - liquidation
2018/19

	AW	MW
	£	£
Proceeds	788,243	644,926
Less: cost	(27,500)	(22,500)
	760,743	622,426
Less: AEA	(11,300)	(11,300)
Chargeable gains	749,443	611,126

Share Sale – full cash consideration
2018/19

	AW	MW
	£	£
Proceeds	869,774	711,633
Less: cost	(27,500)	(22,500)
	842,274	689,133
Less: AEA	(11,300)	(11,300)
Chargeable gains	830,974	677,833

Share Sale – mixture of cash/loan notes

Cash portion (£1,000,000)
2018/19

	AW	MW
	£	£
Proceeds	550,000	450,000
Less: cost 1,000,000/1631407 x 27,500/22500	(16,857)	(13,792)
	533,143	436,208
Less: AEA	(11,300)	(11,300)
Chargeable gains	521,843	424,908

Loan Notes (£631,407)
2020/21

	AW	MW
	£	£
Proceeds	347,274	284,133
Less: cost 631,407/1,631,407 x 27,500/22500	(10,643)	(8,708)
	336,631	275,425
Less: AEA	(11,300)	(11,300)
Chargeable gains	325,331	264,125

MARKING GUIDE

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Sale of WPTL				
Asset Sale	Consideration			1
	Cessation of trade			
		Accounting periods		1
		Balancing adjustments		3
		Gains		3
		Corporation tax		1
		Liquidation proceeds		2
		Informal		2
		Formal		
			Capital	1
			Base costs	2
			Gains	2
			ER	3
			Liabilities	1
			Spreading	1
			Double tax charge	1
Share Sale	to HEL			
		WPTL loss		4
		Consideration		2
		Cash Sale		2
		Loan Notes		3
			Non QCB`s	5
			QCB`s	3
	To JW	Market value		1
		Gift relief		4
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