# The Chartered Tax Adviser Examination

November 2017

Suggested solutions

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## Application and Interaction Question 3

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**Report to Mr and Mrs Collins addressing issues raised and arising in respect of the transfer to the next generation, the expansion and the structure of their businesses.**

**Chartered Tax Advisers LLP, 1 Balance Street, Casttown PR1 LO2**

**Date: 5 November 2017**

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## Introduction

This report addresses the issues raised in the letter dated 26 October 2017. It is intended to form the basis of discussions at a forthcoming meeting and to consider transferring capital ownership to the next generation, the potential expansion of the gift shop business and the overall structure of the family businesses. The report has been prepared based on the information provided in respect of Johnson Framing Ltd and the requirements specified in that letter.

## Executive Summary

The three key issues are to an extent connected but for the purposes of this report have been considered separately. The interaction of the various elements can be discussed at the forthcoming meeting. It is possible that the timing of any capital transfers could be linked directly with the potential purchase and business amalgamation. For example, if the businesses are to be amalgamated by incorporation there may be little need for prior gifts to Nicola and Robert as these could be made subsequently.

## Transfer of capital ownership

- We will need to consider the capital implications of any gifts and ensure that the appropriate hold-over elections are prepared to avoid any Capital Gains Tax (CGT) on the gifts.
- The gain on transfer of an interest in the flat cannot be held over and we will need to quantify the extent of any gain.
- Nicola will need to register for self-assessment if not already registered. Similarly, Robert may need to register.
- We would recommend that a partnership agreement and a shareholders' agreement are drawn up by the Collins' solicitors.
- We should discuss trust structures for asset protection purposes and for tax planning purposes for grandchildren's school fee planning purposes.
- The timing of transfers should be re-considered in view of the potential purchase and amalgamation.

## Purchase of neighbouring property

- The methods of purchase should be discussed but on the basis that it is only the property that is required a simple asset purchase would be the preferred option. Consideration should therefore be given to a simple offer to purchase the property. The entity to be used for the purchase needs to be discussed but a purchase by the existing partnership or a newly amalgamated company would seem the most straightforward. If in a separate entity, the gift shop business will be required to register for VAT. We have not been asked to comment on the price being paid for the business.

- A capital allowance specialist should be contacted to review potential claims for capital allowances against the income of the expanded trade although we may be able to deal with this internally. Discussions should be entered into by solicitors and professional advisers if an offer is to be made.

**Amalgamation of businesses**

- The current structure has not substantially increased fees and has avoided the need to charge VAT on gift shop sales. Now may be the appropriate time in view of the expansion to reconsider the structure and amalgamate the two businesses.
- Various issues need to be discussed in relation to all relevant taxes and various elections need to be addressed.
- Consideration should be given to keeping properties outside the merged company.

## Transfer of capital ownership

We note that Kevin and Lisa are considering transferring a 20% interest in the partnership to their daughter Nicola and 20% of the shares in the company to their son Robert. The gifting of an interest in a trading partnership or shares in a trading company are capital disposals for tax purposes and the CGT and Inheritance Tax (IHT) implications must be considered. In addition, there will be Income Tax implications for all parties. We must also consider the potential concerns relating to Nicola's forthcoming marriage.

### Capital Gains Tax

The gifting of a 20% holding of shares to Robert (a connected person) is deemed to take place at market value for tax purposes. As a result, potential capital gains would arise based on the value of the shares transferred. Provided that the shares meet the definition of qualifying assets such gains can be held over provided the appropriate elections are made. These elections must be signed by both the transferor, Kevin and/or Lisa in this case, and the transferee Robert. If these elections are made Nicola and Robert will acquire the shares for tax purposes at Kevin and Lisa's original cost.

If hold over relief is not claimed the gains, after any available unused annual exemptions, will potentially qualify for Entrepreneurs' Relief (ER). The shares are in a trading company and should therefore qualify for the reduced 10% CGT rate.

For the disposal of 20% of the partnership assets to Nicola as the assets have not been revalued in the partnership accounts a disposal of 10% by each parent will be treated as a no gain / no loss disposal and Nicola will effectively take on her parents' base cost in the property and goodwill.

But there is an issue with the property since 25% of the property is not used by the partnership in their trade so a gain would arise on this part of the property. This gain would not qualify for any reliefs such as ER or gift relief. Appendix 1 gives indicative figures of a £30,000 gain if al l of the flat was disposed of but in this case only 20% is being disposed of so one could say the arising gain of £6,000 which is £3,000 each for Kevin and Lisa is taxable at 18% or 28% CGT as a result of this disposal to Nicola.

The disposals will need to be reported on Kevin and Lisa's self-assessment tax returns and any elections will need to be considered. It is possible to also avoid the need for a formal valuation of the asset if a hold over election is made and again if the appropriate election is made.

Kevin and Lisa have not yet decided what to do with the business premises used by Collins Bakery Ltd. If they decided to make a full disposal of the property to Robert then not withstanding that a

market rent has been charged on the property the gain can still be held-over as above, again the figures are as per appendix 1. If the gain is not held-over part of the gain would not qualify for ER, again see appendix 1 attached. If only a part disposal of the property to Robert is planned, then the resulting gain would be lower.

**Inheritance Tax**

For IHT purposes the gifts would qualify as Potentially Exempt Transfers (PETs) meaning that provided Kevin and Lisa survived the gift by seven years the gifts would be exempt from IHT. If not survived by seven years, the value of the gift would be taken into account when taxing the death estate on Kevin or Lisa's death. However, as the assets, apart from the residential flat, are either shares in a trading company or an interest in a trading partnership then Business Property Relief (BPR) would be available at the rate of 100% to reduce the value liable to IHT. A key condition however is that the transferee (Robert or Nicola) must retain the asset gifted at the date of the death of their parent or the transferee must have replaced it with qualifying replacement assets. Outright gifts of assets do not need to be reported separately for IHT purposes. Even if the gifts are not survived by seven years there are other benefits that may arise in respect of value freezing and taper relief. This is because the value of a PET is taken at the date of the gift not at the later date of death if applicable and the tax on any gift can be tapered after three years.

The possible gift of the business premises to Robert however is slightly different in that the gift is still a PET but if it does become chargeable the maximum rate of BPR would be 50%.

**Income Tax/National Insurance Contributions**

We note that you do not need any further advice relating to the income tax and national insurance implications for Nicola.

If Robert does become a shareholder his 'pay' will continue to be allowable against company profits and to be subject to income tax and employee's NIC with the company being liable for employer NIC. However, as a shareholder it would be possible to pay him a dividend rather than salary to potentially save NIC and income tax. If not registered for self-assessment he may need to register particularly if he is made a company director in which case HM Revenue & Customs (HMRC) will require registration.

The transfer of shares to Robert potentially falls within the shares by reason of employment provisions which could give rise to an income tax liability. There is however an exemption from these provisions if the right is provided or made available in the normal course of family relationships which is the case here.

**VAT**

As the partnership is not VAT registered no action is required regarding notification but see below if the business is expanded. Similarly, as the company is the VAT registered entity and not the individual shareholder, no action is required by the company.

**Stamp Duty Land Tax/Stamp Duty**

As the partnership owns the property there will be a part disposal of property potentially liable to Stamp Duty Land Tax (SDLT). SDLT does not however apply to transfers of any 'interests between partners', notwithstanding that the interest includes property, provided that it is not a property investment partnership, which we can confirm Collins Gifts is not.

The gift of shares to Robert will be exempt from stamp duty although a stock transfer form will need to be completed. Future Companies House compliance statements will include Robert as a shareholder.

If an interest in the property owned by Collins Bakery Ltd is transferred to Robert SDLT may be due on the value transferred but only if there are borrowings against the property. Whilst gifts to individuals are exempt from SDLT a proportion of the mortgage debt would be treated as deemed consideration. We would therefore need to quantify the position particularly if new loans have been secured against the property to purchase the adjacent business.

**Other non-tax issues**

As a partner Nicola would become jointly and severally liable for any partnership debts although the partners could consider forming a Limited Liability Partnership (LLP). Whilst the LLP would need to file accounts at Companies House at least a partner's liability could be limited.

We would strongly recommend a partnership agreement is drafted to specify the rights of the partners and what would happen in certain events in the future.

As little is known of the financial position of Clive, Nicola's fiancé, we note the concern regarding asset protection and the future. The partnership agreement would of course not help resolve any financial implications in the case of any future divorce as the value of her interest in the partnership would still be an asset to be considered.

Lisa and Kevin could therefore consider some form of trust structure. The interest in the partnership gifted by Kevin and Lisa could be to a trust for the benefit of Lisa such that she can be paid the underlying income but have no interest in the capital value. Alternatively, Lisa could simply be made an income partner with no interest in the underlying capital.

In fact, a trust structure may be a useful way of helping with the grandchildren's school fees. If Kevin and Lisa decided to settle a number of shares into a trust for the benefit of their grandchildren, then when the company pays dividends on its shares part will be payable to the trust. The trust will be liable at the trust dividend rate on the amount received. When the monies are used for the benefit of the grandchildren, such as in paying school fees, the tax suffered by the trust is potentially recoverable. This is because each grandchild has their own personal allowance. The alternative of paying dividends to Kevin and Lisa with which to pay school fees means that they are likely to have paid tax on such income. Dividends paid to trusts do not qualify for the £5,000 nil rate band, but on the basis that the gross distributions are below the personal allowance of each grandchild no tax would be paid in any event.

The gift to the trust is treated in exactly the same way as above for CGT, except that only the transferor needs to sign any holdover election and also all gains can be held-over even on non-trading assets, i.e. the flat, because the gift is chargeable to IHT. This is because transfers to trusts are immediately chargeable events for IHT purposes unlike PET's. Provided the value is below the nil-rate IHT band or the assets qualify for 100% BPR no IHT would be due. There are however detailed legal issues to deal with and ongoing tax issues that would need to be discussed.

We would also strongly recommend that a shareholders' agreement is drawn up to specify the arrangements relating to shareholders on leavers/changes or future sales.

Kevin and Lisa need to be made aware that they are giving away legal ownership of the underlying assets. They should also consider the effect on the levels of their personal income which will be reduced.

**Acquisition of adjacent business**

The business adjacent to the gift shop is currently being marketed for sale and the sale particulars have been provided. The business and trading premises are owned by Johnson Framing Ltd and all the shares are currently for sale for £380,000 although an asset sale for £430,000 would also be considered. We therefore need to consider the method of potential purchase and how to structure any purchase. Appendix 2 shows a comparison of the purchase prices under each option with the balancing figure of £130,000 being the effective valuation of the goodwill under the two alternatives. As however Kevin and Lisa have no intention of carrying on the picture framing business they would probably wish for a simple property purchase to increase the size of the gift shop. They should therefore consider simply making an offer to purchase the property. If they buy the shares they will effectively be overpaying for the property. Only if a price discount could be obtained is there any benefit in a share purchase.

**Share Purchase**

If the shares in Johnson Framing Ltd are purchased there would be no immediate effect on the company's activities as effectively the company would continue in its existing form but with different shareholders. A detailed share purchase agreement (SPA) would be required to deal with any claims against, or unidentified liabilities of, the company in respect of periods prior to the purchase.

There are key differences between the two methods of purchase some of which are as follows:

**Share Purchase**

The SPA would include various warranties and indemnities against such liabilities. Significant legal costs could arise.

The share price we note is set at £380,000 and this cost would be liable to stamp duty at ½%, £1,900, which is lower than under an asset purchase. There are however certain other tax issues and potential liabilities to consider:

1. We note that the directors' loan balance of £40,000 is to be forgiven. This deemed credit in the profit and loss account would be liable to corporation tax at 20%. The liability could be avoided by simply reducing the purchase price by £40,000 and repaying the directors' loan accounts. The company would save corporation tax and the vendor CGT on the share disposal.

2. There are also latent/deferred tax liabilities on the two chargeable assets; property and goodwill. The property has a cost of £100,000 but is valued at £275,000. The gain, after deducting indexation allowance would be liable to corporation tax. Similarly, if the goodwill was sold at its market value a corporation tax liability would arise. It is common for a purchaser to request a discount for these potential corporation tax liabilities that would not arise if the assets had been purchased.

3. As the shares are being purchased it is for the company to claim any capital allowances on any qualifying items in the cost of the property. This may already have been dealt with and be reflected in the capital allowances pool. Further information would be needed.

**Asset Purchase**

This is more straightforward in terms of legal agreements as you are simply acquiring assets with the key requirements simply being confirmation of ownership and any potential charges against them. There will however be an additional cost in terms of the liability to SDLT as the assets being purchased would include the property. Goodwill is not liable to SDLT nor are fixtures or stock. HMRC can review any apportionment but on the basis that the property has been valued on an arm's length basis this is unlikely. The SDLT based on a purchase price of £275,000 would be £3,250 as this is non-residential property. Again, there are various other tax issues that need to be considered. As noted above Kevin and Lisa should consider simply making an offer to buy the property and not the picture framing business. The vendors could, if they wish, sell this separately.

1. Where a commercial property is purchased there is an opportunity to claim capital allowances on the purchase price as any property of this type is likely to include items on which capital allowances are available either as plant and machinery or integral features. In order to claim such allowances, the qualifying elements need to be agreed on purchase, or within two years of the purchase, and this amount would represent the qualifying expenditure for capital allowance purposes. It will be important therefore that this issue is addressed by the solicitors dealing with the purchase. It should be noted however that this does not apply to any integral features in the building relating to periods prior to April 2008 as the vendor could not have claimed on these items in any event. Capital allowances can of course be claimed on the cost of the fixtures and the cost of stock will be offset against any future sales of the items.

2. As the picture framing business is to be immediately closed this cannot be a transfer of a going concern (TOGC). A disposal of the property however is if it is subject to an option to tax. If such an option exists VAT would be chargeable.

3. It should be noted that on an asset purchase the selling company will suffer corporation tax on the profit/gain on the assets sold. The shareholders would then need to extract the monies and effectively suffer a double tax charge. This may be relevant to any sale negotiations.

In addition to the considerations regarding the method of purchase we will need to consider if this would be by the existing partnership or by a company:

- A purchase of the assets by the existing partnership would simply be an expansion of the existing business into a larger shop area by the purchase of additional premises. It is likely that the enlarged business will exceed the VAT threshold and be required to register for VAT. This may in any event be beneficial in order to recover any VAT charged on the purchase. Future sales in the existing shop will become liable to VAT which will either reduce profits or increase prices depending on whether the 'cost' is to be charged on to customers.

- A purchase of the shares personally by the three partners, the existing partnership trade and assets could then be transferred into the company to combine the two shops. The share monies will be locked into share capital and a company could be formed for this purpose.

- Alternatively, the partners could form a new company to which they would make personal loans equal to the purchase price. This new company would then use the monies to buy the shares in Johnson Framing Ltd. The trade and assets could again then be transferred to the company to combine the two shops. This would again have VAT implications for the two shops regarding VAT registration/liability implications.

- A new company could be formed to acquire the assets of Johnson Framing Ltd with the existing trade and assets again being transferred as above with a similar outcome.

We would recommend that an offer is made to simply acquire the property, not the shares, and that consideration is given to a detailed capital allowances report/claim being made. If the existing businesses are to be amalgamated the offer should come from the amalgamated entity. If not, then we could consider incorporating the gift shop business in any event.

We note that Kevin and Lisa would consider borrowing against the property used by Collins Bakery Ltd and these monies would then be transferred on loan account into the company or continuing partnership for it to buy such assets. Interest paid on a loan to a trading partnership or to a company would qualify for income tax relief against general income. There is however a limit to the amount deductible in these circumstances. The maximum deduction against general income for interest is the higher of, £50,000 or 25% of total income. Whilst the loan is secured on the property interest will not be restricted to basic rate under the new legislation (being phased in) as it is not a loan to purchase a residential property.

**Transfer of Collins Gifts to Collins Bakery Ltd**

The businesses owned by Kevin and Lisa have to date been operated as detailed above by a partnership and by a company. This has enabled the two businesses to be kept separate and distinct. It has also avoided the need for the gift shop to charge VAT on its sales which has made the shop more competitive in the local area. If the business had needed to charge VAT this would have become a cost as it may not have been possible to pass this on by way of higher prices. In addition, it has kept separate the businesses in which the two children work. Having two separate entities has not significantly increased the level of costs and any such excess could well have been outweighed by the VAT consequence. There are also accounting benefits in keeping the accounts in two separate entities.

Now, however, in view of the current plans regarding expansion etc. may be the time to consolidate all their business interests into one company.

The transfer (incorporation) of the existing partnership into the company will be a cessation of the trade for income tax purposes and will be deemed to take place at market value for CGT purposes.

**Income tax**

The incorporation would be a cessation of the trade and each of the partners will need to consider their tax position. If the incorporation occurred on say 1 January 2018 this will be in the 2017/18 tax year. As the partnership has a 31 March accounting date this will simply mean that the partners pay income tax on the profits for the period to 31 December 2017. This may include Nicola if she had been given an interest in the partnership in 2017/18 as detailed above. It is important to note that in this final period writing down allowances (WDA's) or annual investment allowances (AIA's) are not available for capital allowance purposes. The assets will transfer to the company at market value unless an election is made to transfer at tax written down value. The company will then be able to claim WDA's on the assets but not AIA's.

**Capital Gains Tax**

On a transfer to the company the two chargeable assets being disposed of are the property and the goodwill. The gain on the property of £120,000 (£300,000 - £180,000) would be split 40:40:20 between the three partners, as noted above. As Kevin and Lisa have been partners for a number of years ER could be could be claimed to reduce the rate of CGT to 10% on their share of any gains above any unused annual exemption in relation to the trading element of the gain. The proportion relating to the flat above the shop would not qualify for ER and would be liable at 18%/28% at the residential property rates on CGT. As Nicola would not have been a partner for 12 months her share would not qualify for ER.

The gain on transfer of the goodwill, £40,000 (£80,000 - £40,000) will not qualify for ER as the partners are related to the company and following a change of rules from 3 December 2014 ER is not available in such circumstances. As an aside the company will not be able to claim tax relief on the amortisation of the goodwill.

In order to mitigate these CGT liabilities there are effectively two methods using either incorporation relief or gift (hold-over) relief.

**Incorporation relief**

The capital gains arising on the transfer of the above assets on the incorporation of the partnership's business can be relieved under incorporation relief provided the following conditions are satisfied:

- The transfer to the company is of a business as a going concern
- All of the assets of the business, possibly excluding cash, must be transferred
- The transfer must be wholly or partly in exchange for shares issued by the company to the partners transferring the business.

The effect of Incorporation relief is to roll the chargeable gains against the base cost of the shares received. The chargeable assets themselves benefit from an uplift in their base cost to market value in the hands of the company.

Providing all the conditions are satisfied, incorporation relief is automatic although an election can be made for it to be disapplied and instead suffer CGT. In addition to the extent that value is given other than in shares, such as cash or on loan account, a proportion of the gains will be taxable. If not all the assets are transferred, for example if the property is retained personally, incorporation relief could not apply in any event.

**Hold-over relief**

As for the gift of assets to Nicola and Robert above an election can be made, by the partners and the company, to hold-over any gains on transfer of qualifying assets to the company. The relief applies if the assets are transferred to the company at an amount less than market value.

Gift relief enables the capital gain arising on the transfer of the asset to be held over against the base cost of the asset in the hands of the company, so there is no market value uplift in base cost of the chargeable assets transferred in this case.

Unlike with incorporation relief, gift relief does not require the whole of the partnership or even all of the assets used in the partnership to be transferred. It must simply be 'an asset' used in the trade. As a result, the part of the gain on the property relating to the flat could not be held

over. The partners could therefore decide to transfer the business but not the property to the company.

For the most part, there is a straight choice between incorporation by incorporation or by gift relief. All the circumstances of the business, its asset values, and so on must be considered along with the future intentions of the partners.

A decision would therefore need to be made as to the method of incorporation and in particular if the property should be retained by the partners. The gain on transfer of the goodwill is liable at either 10% or 20% as ER is not available but assuming the partners have no other gains in the tax year with the annual CGT exemption still being available the CGT due would be minimal.

An incorporation using gift relief but with retention of the property would on balance be the preferred option to consider.

**Stamp Duty Land Tax**

If it is decided to transfer the property to the company, then SDLT would potentially be due as the partnership is of course connected with the company and special rules apply such that SDLT is potentially due on the market value of the property transferred. As this is deemed to be a mixed use property, a commercial property with a flat above, then commercial SDLT rates apply.

However, as this is a partnership, this normal rule is overridden by special rules for partnerships. The effect is that the SDLT is based on the extent of the common ownership of the partnership and the company. For example, where three partners transfer a property owned equally to a company owned by only two of the partners then the SDLT is based on one third of the market value i.e. the deemed change in ownership. We would therefore carefully need to consider the proposed share structure of the ongoing entity. Whilst the partnership rules are extremely complex it is likely that an SDLT charge will not arise as all partners/shareholders are connected direct family members.

**VAT**

At the moment the partnership is not VAT registered and the transfer of assets would not be liable to VAT but could cause the partnership to be required to be registered. On transfer to the company however the gift shop sales would become liable to VAT as the company is VAT registered. If the property is transferred to the company with the continuing exempt property lettings, then the partial exemption rules may apply. If as above however the gift shop had become VAT registered the transfer is likely to fall within the TOGC rules.

**Inheritance Tax (IHT)**

At the moment the value of the interest in the shares of the company and in the partnership owned by Kevin and Lisa would qualify for 100% BPR with the effect that the value is 100% exempt from IHT. In order to qualify however the asset must have been held for two years and as a result Nicola and Robert’s respective interests would not qualify. If the partnership is incorporated and any monies are left on loan account, then such monies would not qualify for BPR even though partners’ capital accounts do. In addition, if the partnership premises are retained personally the maximum rate of BPR would reduce to 50% and then only if control is retained, greater than 50%, of the company.

**Corporation Tax**

The incorporation of the gift shop will mean that future profits are liable to corporation tax at 20% rather than income tax at various rates. It is important to note however that the losses brought forward from the bakery cannot be offset against the future profits from the gift shop as they can only be set against future profits from the same trade giving rise to the losses.

**Other issues**

A key concern will be the percentage ownerships of the amalgamated businesses. At the moment the value of the gift shop is less than the value of the company and therefore a 20% interest for Nicola is worth less than a 20% interest for Robert. We will need to consider and discuss the ongoing percentage interests in the amalgamated entity. Do Kevin and Lisa wish for equality or a difference to reflect the differences in value?

Based on the above and on the assumption that the adjacent business is purchased we would recommend that the gift shop business is incorporated utilising gift relief as far as possible. It is likely to be of benefit to bring this forward to the same time as capital interests are given to Nicola and Robert. This is subject to agreement being reached as regards the split of ownership.

**Appendix 1**

**Mr & Mrs Collins**

**Potential Capital Gains Tax – Partnership gift shop property**

| | Total | Flat (25%) |
|---|---|---|
| Current Market Value | 300,000 | 75,000 |
| Less: Cost | (180,000) | (45,000) |
| | £120,000 | £30,000* |

*Potential Capital Gain at 18%/28% subject to annual exemption

**Potential Capital Gains Tax – Property owned personally and used by Collins Bakery Ltd**

| | Total | Qualifying for ER | Not Qualifying for ER |
|---|---|---|---|
| Current Market Value | 220,000 | | |
| Less: Cost | (140,000) | | |
| Apportionment* | £80,000 | £41,653 | £38,347 |

*ER is not available for the period post April 2008 to the extent that a full-market rent has been charged.

Period October 1997 to April 2008 – 10 years 6 months = 126 months

Period April 2008 to November 2017 – 9 years 8 months = 116 months

Total period of ownership = 242 months

**Appendix 2**

**Mr & Mrs Collins**

**Potential Purchase of Johnson Framing Ltd – Assets or Shares**

**Asset Purchase**

| | |
|---|---:|
| Property at Value | 275,000 |
| Fixtures at Value | 5,000 |
| Stock at Cost | 20,000 |
| Goodwill at Value – Balancing Figure | 130,000 |
| Total Purchase Price | £430,000 |

**Share Purchase**

| | |
|---|---:|
| Net Assets | 40,000 |
| Restate Property at Value – (£275,000 - £100,000) | 175,000 |
| Restate Fixtures at Value – (£5,000 - £15,000) | (10,000) |
| Add back DLA | 40,000 |
| Goodwill (as above) | 130,000 |
| Difference – Additional Consideration* | 5,000 |
| Share Price | £380,000 |

*Effectively a £380,000 would mean the cost is £5,000 greater than under an asset purchase (ignoring tax).

**MARKING GUIDE**

| TOPIC | MARKS | |
|---|---|---|
| **Introduction of Nicola and Robert into capital ownership and related issues** | | |
| **Capital Gains Tax** | | |
| Transfers between connected persons | 1.5 | |
| Market Value | 1.0 | |
| Trading Assets | 1.0 | |
| Hold Over issues | 2.0 | |
| Entrepreneurs relief | 1.0 | |
| Trading Partnership | 1.0 | |
| Indicative Calculations | 1.5 | |
| Report on self-assessment return | 0.5 | |
| Business premises for Collins Bakery Ltd - Calc | 1.5 | |
| | | 11.0 |
| **Inheritance Tax** | | |
| PET rules | 2.0 | |
| Business property relief Shares/Partnership | 1.0 | |
| Business property relief – property used by Co | 1.0 | |
| Value freezing | 1.0 | |
| | | 5.0 |
| **Income Tax/NIC** | | |
| Robert remains employed | 0.5 | |
| Option to pay dividends | 1.0 | |
| Shares by reason of employment - family | 1.0 | |
| | | 2.5 |
| **VAT** | | |
| Partnership not VAT registered so no change | 1.5 | |
| Company registered not shareholders | 1.0 | |
| | | 2.5 |

| **SDLT** | | |
|---|---|---|
| Change in partners deemed part disposal | 1.0 | |
| Deemed connected % change | 1.5 | |
| | | 2.5 |
| **Other issues** | | |
| Joint and several liability | 1.0 | |
| Partnership agreement | 1.5 | |
| Trust structure re: Divorce | 1.0 | |
| Trust for grandchildren | 1.0 | |
| Hold-over on gifts to trust | 0.5 | |
| IHT issues on trusts | 0.5 | |
| Shareholders agreement | 1.0 | |
| | | 6.5 |
| | | 30 |

| **Acquisition of Business next door** | | |
|---|---|---|
| **Share purchase** | | |
| Warranties/Indemnities | 1.0 | |
| Corporation tax on loan w/off | 1.0 | |
| Stamp Duty at ½% | 0.5 | |
| Reduce proceeds/repay loan | 1.0 | |
| Continuity of entity | 1.0 | |
| Capital allowances within company in pool | 1.0 | |
| Acquisition of business but closed immediately | 1.0 | |
| | | 6.5 |
| **Asset purchase** | | |
| More straightforward | | |
| SDLT on property purchase but not goodwill | 1.5 | |
| Easier as only want property not goodwill | 2.0 | |

| | | |
|---|---|---|
| Capital allowances on property purchase | 1.5 | |
| VAT issues re: Transfer of going concern | 1.5 | |
| Effect on shop turnover - registration | 1.5 | |
| | | 8.0 |
| **Structure of purchase** | | |
| Options available | 1.0 | |
| Purchase of assets by existing partnership - issues | 2.0 | |
| Purchase of shares by individuals - issues | 2.0 | |
| New Company to buy assets or shares - issues | 2.5 | |
| Financing of purchase | 2.0 | |
| | | 9.5 |
| | | 24.0 |

| **Overall structure of the various businesses** | | |
|---|---|---|
| **Comments on current structure** | | |
| Income tax | 2.5 | |
| Cessation of trade | 1.0 | |
| Basis of assessment | 1.0 | |
| No overlap relief | 0.5 | |
| Capital allowances in final period | 1.0 | |
| | | 6.0 |
| **Capital Gains Tax** | | |
| Potential gains on property/goodwill | 1.0 | |
| Entrepreneurs relief re: property | 1.5 | |
| Entrepreneurs relief re: goodwill | 1.0 | |
| Incorporation relief | 1.5 | |
| Hold over relief | 1.5 | |
| | | 6.5 |

| **SDLT** | | |
|---|---|---|
| Market value rules | 1.5 | |
| Partnership rules | 1.5 | |
| Interaction | 1.0 | |
| | | 4.0 |
| **VAT** | | |
| Gift shop sales | 1.0 | |
| Property lettings | 0.5 | |
| TOGC rules | 1.5 | |
| | | 3.0 |
| **Other issues** | | |
| IHT Business property relief 100% v 50% | 1.0 | |
| Future profits liable to Corporation tax | 0.5 | |
| Corporation tax losses b/fwd | 0.5 | |
| Differences in value for Nicola and Robert | 1.0 | |
| CGT re: flat | 0.5 | |
| General comments | 1.0 | |
| | | 4.5 |
| | | 24.0 |
| | | |
| **TOTAL** | | 78.0 |