Institution **CIOT - ATT-CTA - 2020 November Exams**
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Course **CTA Adv Tech Owner-Managed Business**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID **11181**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**452**	**2246**	**3232**
Section 2	**465**	**2177**	**2773**
Section 3	**433**	**1905**	**2483**
Section 4	**400**	**1995**	**3132**
Section 5	**350**	**1608**	**2008**
Section 6	**94**	**418**	**554**
Total	**2194**	**10349**	**14182**

Answer-to-Question-_1_

1)Capital Allowances PE 28 Feb 2020 (1/7/19-28/2/19) (8m)

	MP	SRP	Car
TWDV b/f	120,000	28,000	
Additions:			
Electric car			30,000
Lighting		3,000	
Disposals			
Electric car			(22,000)
Car		(5,000)	
Total	**120,000**	**26,000**	**8,000**
Less MV	(102,000)	(14,000)	
Balancing adj	**18,000**	**12,000**	**4,000 (N1)**

No AIAs, FYAs or WDAs are available in the period of cessation. A balancing charge or allowance will arise when the business ceases.

(N1) As the eletric car was used 50% for private purposes, the balance allowance of £8,000 will be restricted to 50%.

2) <u>Utilisation of trading losses</u>

	30/9/16	30/6/17	30/6/18	30/6/19	28/2/20
Trade profit	250,000	110,000	92,500	0	0
NTLR	5,000	2,500	2,500	1,500	1,500
Property	17,000	22,500	20,000	18,500	22,500

Less s.37 3(a)				(20,000)	(24,000)
Less s.37 3(b)			(115,000)		
Less s.39		(135,000)(w1)			
QCD	(5,000)	Lost	Lost	Lost	
Total	**223,000**	**0**	**0**	**0**	**0**

Loss memo

Where a company makes a trading loss, it can be relieved againsts total profits of the same accounting period then total profits of the previous 12 months and the carried forward against total profits subject to the carried forward restriction.

Terminal loss relief is available where a company ceases to trade. The trading loss of the final 12 months of trade can be carried back against total profits of the 36 months ending immediately before the loss making period. The loss is set against total profits before charitable donations, and set off on a LIFO basis.

The loss for the final 12 months is calculated as follows:

28/2/20: 8months 132,000 + CAs above (34,000) = 166,000
30/06/19 4 months (210K - 1,500-18,500) 190,000 x 4/12 = 63,333

Total = £229,333

The 8month loss can be carried back to 30/06/17 and 4 months can be carried back to 30/09/16.

The losses will be offset as follows:

<u>PE 28/2/20</u>
Loss 166,000

s.37 3(a) CY	(24,000)
s.39 (to 30/6/17)	(60,000)
Unutilised	82,000

YE 30/6/19

Loss	210,000
s.37 3(a) CY	(20,000)
S.37(b) CB	(115,000)
	75,000
S.39 (to 30/6/17)	(75,000)
Unutilised	0

3) Post cessation receipts are taxed in the year of receipt unless an election is made to tax in the year of cessation (s.257 ITTOIA 2005).

Post cessation qualifying payments are set against post cessation receipts, then set against net income (subject to the cap on reliefs against net income, then set against chargeable gains in the year of payment, then carried forward and set against post cessations receipts.

1. The £8,000 receipt will be taxed in the year of the receipt unless an election is made to tax in the year of cessation.

2. The £5,000 expense can be set against the £8,000 receipt and then carried forward against post cessation receipts.

3. The £5,000 expense can will be carried foward against post cessation receipts.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

A Tax Advisor
[My address]

Ravi Sharma
[Your address]
[Date]

Dear Ravi,

Please see below tax implications of the land transactions carried out in 2019/20.

General

A gain arises when a capital asset is disposed of at a profit. Chargeable assets are thise which are not specifically exempt, and this includes most property.

Unincorporated business (sole traders and partnerships) are eligible for relief where there is a material disposal of business assets. This is known as entreprenuers relief (ER). The relief is given by taxing gains at 10%.

However, eligible gains are subject to a lifetime limit of £10 million. It is clear £9.8 million has already been used against the sale of your company in 2012. Leaving £1.2 million eligible for the relief. It is not clear whether you claimed this £1.2 million in 2005 when you sold your business, therefore the following implication are based on you still having £1.2 million remaining.

Gains in excess of the lifetime limit is subject to CGT as normal.

Sale of Outbuildings

The outbuilding was purchased in June 2013 for the use in your paintballing business. This business constitutes a trade for the purpose of ER.

ER is also available where an asset is used in business at the time the business ceases, and is sold within 3 years of cessation. The fact that you rented the outbuildings, does not impact ER. The restriction only applies to associated disposals.

As you sold it within 3 years of the business ceasing, the gain will qualify for ER:

Proceeds	350,000
Less cost	(30,000)
Gain	320,000
Less AE	(12,000)
Chargeable gain	308,000
CGT @ 10%	30,800

Partnership & Scrub land

The partnership was formed in 2014, therefore the two year period for ER is satisfied.

The sale of the scrub land is an associated disposal. ER is only available where a material disposal of a partnership is made and you own an asset which is used by the partnership and you sell the asset in conjuction with the material disposal.

Although your share in the Partnership is Jan 2018 was 4%, there is an exception which allows a material disposal to be less than 5%. This means that you must have owned 5% or more for 3 of the 8 years prior to disposal. this is clearly the case.

However, the relief is restricted where rent has been charged for the use of the asset. As 50% of the market rate has been charged, partial ER will be available as follows:

Proceeds	250,000
Cost	(75,000)
Gain	175,000

50% of the gain will qualify for ER at 10% = 8,750

The rest of the gain will be subject to the normal CGT rules assuming 20%.

If you have further queries, do not hesitate to contact me.

Yours Sincerely,
A Tax Advisor

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

A Tax Manager
[My address]

Mary Costa
[Your address]
[Date]

Dear Mary,

Please see below tax implications for Aurora Enterprise Ltd if HMRC's valuation of the options is correct and the potential penalty position.

1) An EMI share option scheme is eligible for favourable tax treatment and can be offered to selected employees. The sheme must be registered with HMRC, giving details of the scheme within 92 days. For certainty, the market value (MV) at grant can be agreed with HMRC.

However, it appears this was not done. Only an internal valuation was made.

As the company was under negotiations to be sold, the shares will be regarded as readily convertible assets, and therefore subject to PAYE and class 1 NIC.

The sale of the company is a disqualifying event, and therefore the option must be exercised within 90 days to preserve the tax advantaged status.

If HMRC's calculation of the valuation is correct, it will appear the shares have been offered to Bill at a discount of £3000 - £1750 = £1,250 per share. This gives a total of £12,500.

As the option has been exercised within 90 days of the takeover, a charge to tax will arise.

Income tax on the exercise will be calculated as follows:

MV at exercise	3,000	
Less paid	(1,750)	
Employment income	1,250	x 100 shares = £12,500

The above amount will also be subject to class 1 NIC at 13.8% for the company = £1,725

As Bill is a additional rate tax payer, he should have been subject to income tax at 45% (12,500 x 45% = £5,625), and class 1 NIC at 2% = £250

This amount should have been paid by 22nd of the end of the tax month in which the options were exercised (i.e. 22 May 2020).

2) <u>Penalties</u>

A late payment penalty will be charged depending on the number of defaults in the tax year.

Assuming the number is less than 3, a charge of 1% will apply on the amount of tax and NIC outstanding. An additional penalty of 5% will be charged if it is more than 6 months late and again if it is 12 months late.

As the amounts should have been reported on the FPS, an incorrect

FPS will result in a penalty of up to 100% of the extra tax due depending the your behaviour and level of disclosure given to HMRC. However, if the error arose due to a careless mistake, it can be suspended for 2 years.

If you have further queries, do not hesistate to contact me.

Yours Sincerely,
A Tax Manager

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Tax Adjusted Profits YE 31 March 2020

	£
Profit per accounts	72,953
Add back:	
Loss on sale of fixed assets (N1)	1,400
Depreciation	4,750
Pension contribution (N3)	1,250
Motor expenses (N4)	3,300
Repairs and renewals (N6)	24,800
Legal and proff fees (N7)	1,100
Gym membership	600
Deduct:	
Receipt from local charity (N2)	(450)
Motor expenses (N4)	(2,160)
Part of lease premium (N5)	(2,700)
Capital allowances (W1)	(21,538)
SBAs (W2)	(240)
Tax Adjusted profits	**83,065**

(N1) Loss on sale of fixed assets is an accounting adjustment and not deductible for CT purposes.

(N2) Wholly unexpected and unsolicited amounts are not taxable.

(N3) Pension contributions are allowed when paid, therefore 1250 needs to be added back.

(N4) The maximum relief is available when a flat rate expense is claimed:

under normal rules, 60% of the £3300 will be disallowed as it represent private mileage (=1980, therefore 1320 allowed as a deduction).

45p per mile is allowed up to 10 miles for business mileage if the flat rate expense is claimed. This gives a deduction of £2160.

(N5) Part of the lease premium paid by the tenant for a short lease is deductible from trade profits.

Lease premium:	45,000
Less capital amount (45K-(45K x 2% x 9))	(36,900)
	8,100

Allow: 8,100 x 2/3 x 6/12 = £2,700

(N6) Dilapidation costs are regarded as revenue expenditure as it is incurred to remedy normal wear and tear.

Law shipping case: work done to make asset initially usuable is capital. Therefore the renovation work will have to be added back. However the amount will qualify for structures an building allowance (SBA) at 2% on qualifying cost as it took place paost 29 October 2018.

The decoration of the flat is also capital expenditure.

(N7) Drafting of business lease is a capital expense.

(N8) interest paid to fund lease premium is deductible

(N9) Private expenditure by Pippa needs to be added back, therefore £600 of the £3000 gym membership needs to be added back.

(W1)

	AIA	Main pool	Special rate	Total CAs
TWDV b/f		17,000		
Additions:				
Printers	11,000			
Car			23,000	
Electric car		14,000		
Cabling	2,600			
Lowering floor	1,650			
Disposals:				
Laptops school		(225)		
Laptop local biz		(10)		
Car		(3,500)		
Total	**15,250**	**27,265**	**23,000**	
WDA 100%	(15,250)			15,250
WDA 18%		(4,908)		4,908
WDA 6%			(1,380)	1,380
TWDV c/f		**22,357**	**21,620**	
				21,538

(W2) Structures and Buildings Allowance (SBAs)

Renovation costs	24,000
@2%	480

Time apportion: 480 x 6/12 = 240

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

1) A PAYE Settlement agreement (PSA) is an agreement with HMRC which allows the employer to settle the employee's tax liability in respect of an expense or benefit.

An expense or benefit can be included in a PSA if it is minor, irregular or hard to apportion between employees.

Amounts included in a PSA do not have to be reported on form P11D and are not taxable on the employee.

The employer must write to HMRC describing the expense they want the PSA to cover. Once they have been agreed, two draft copies of the form P626 will be sent which needs to be signed. The deadline for applyinf for a PSA is 5 July following the first tax year it applies to.

A PSA is an enduring agreement which does not need to be renewed (unless the employer needs to make changes).

<u>Anniversary staff event</u>
Christmas parties and annual functions may be exempt if the cost is below £150 per head and it is open to all employees.

This excludes one-off events, therefore the 20-year anniversary event will be classed as staff entertainment, and subject to income tax and NIC on the employees.

<u>Staff Gifts</u>
The non-cash voucher may fall within the trivial benefits

exemptions as the value does not exceed £50, and it is not provided in recognition of services carried out by employees. Therefore, this is not a benefit in kind for employees.

Long service award

Long service awards up to £50 per year of service if served at least 20 years will be exempt. However, the employee has only worked 15 years, therefore the benefit will be subject to income tax and NIC.

2) Total amount payable under PSA 2020/21

Staff Event	Cost		Income tax	NIC	
BR Tax payers	1,800	(x 20/80)	450	(1800+450)x13.8%	310
HR Tax Payers	1,200	(x 40/60)	800	(1200+800)x13.8%	276
Total	**3,000**		**1,250**		**586**

Long Service award

BR Tax payers	**650**	(x 20/80)	**162**	(650+162)x13.8%	**112**

Total IT = 1,412

Total NIC = 698

The payment is due 22 October 2021 if paid electronically (or 19 October 2021 if not paid electronically).

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

1) Carol 18/19: (£8000 + £6000) x50% = £7000
   Carol 19/20: £32000 x 50% = £16000

   Rhea 18/19: (£8000 + (£12000 x (2/12)) x 50% = £5000
   Rhea 19/20: £32,000 x 50% = £16000

2)As Rhea is above pensionable age, she will not be subject to class 2 or class 4 NIC

Marriage allowance or married coupls allowance can be claimed as a tax reducer.
Consider diverting income from the higher rate tax payer to lower rate tax payer.

Carol 19/20

Salary	66,000
Trade profit	16,000
Rental income	6,800
Total	88,800
Less PA	(12,500)