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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**506**	**2565**	**3644**
Section 2	**715**	**3322**	**4527**
Section 3	**803**	**3493**	**4286**
Section 4	**456**	**2115**	**2533**
Section 5	**517**	**2271**	**3035**
Section 6	**798**	**3619**	**5009**
Total	**3795**	**17385**	**23034**

Answer-to-Question-_1_

Elite Yach services is a partnership with a corporate member, therefore no annual investment allowance is available when calculatin capital allowances.

The period of the first accounts is 11 months and therefore allowances should be apportioned proportionately.

1. Gulprit created a new battery whic progressed an advancement in science and technology. Where an SME conducts such activities they are elegible for R&D capital allowances. Although the battery expenditure was made before trading began SMEs can elect to receive enhanced 100% capital allowances in the period which began trading. Therefore, the full amount of the expenditure is allowable. However, as the machinery was not brought into the partnership until a later date, the market value at the commenecment of traidng should be used.

R&D relief @ 100%

2. The machinery is not held in Gulprit's name however as he is a member of he partnerhsip the machinery is still available for capital allowances.

3. Factory and Suite

Land including SDLT is not available for capital allowances as it is not plant or machinery. This is also the case for planning permision.

Archietcs and designer fees, site preparation and the construction of the factory are not allowable for writing down allowances but are allowable for structures and building allowances.

Air conditioning is an integral feature per CAA 2001 s33A and only eligible for the special rate pool.

Production machinery is plant and machinery so elegible for AIA. The delibery and installation costs of the machinery are also eligible. Only the amount of expenditure incurred before the year end is available in this period. 75% x £800k = £600k

The equipment / office equipment is eligible as it is plant and machinery. The amount paid should be added to the computation rather than the market value

4. Other Costs

The electric vans and electric vehicle charging point are elegible for first year allowances at 100%.

The car for Gurprit is a private use asset so the releif available must be restricted for the private use percentage. It is the VAT exclusive amount which should be used.

The car for the production manager is elegible for first year allowances and it is the VAT exclusive amount that is used. As the manager is not a member of the partnerhsip no private use restriction is necessart however the manager will have a benefit in kind and be taxed accordingly.

Computation

	FYA	WDA	SRP	Gurprit Car	PU
Total					
TWDV b/f					
Additions:					

Machinery (R&D) 200,000

Production machinery 600,000

Delivery 50,000

Air con 80,000

Equipment 130,000

Equipment 200,000

Air cond 12,000

Electirv vans 102,000

Charging point 1200

Car guprit 68800

Car prod. man 19600

Total

303,200 999600 92,000 68800

FYA @ 100% 303200

303200

WDA @ 18% x 11/12 916300

916300

SRP @ 6% x 11/12 5060

5060

FYA @ 100% 68800 (13760)

55040

FYA @ 100% 24500

24500

1,304,100

SBA

Land 1250,000

Planning 8,000

Architect 45,000

Site 200,000

Construciton 600,000

Land	200,000
Planning	2,000
Architect	15,000
Construction	300,000
Total	2,665,000

Total x 3% x 11/12 = 73288

Total CA + SBA = 1377388

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

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

Answer-to-Question-_2_

Chailet Ltd

Trading income 816510
Less CAs (270,260)
Trade Profit 546250

Non-trade loss (loan relationships) (32,600)

TTP 513650

CT @ 19% = £97594

Trade profit	£	£
Accounting Profit		
675,000		
Add:		
1. Depreciation	27000	
2. Pension contributions	13,770	
3. Partition walls	12,000	
4. Employee car	540	
5. Client entertaining	2000	
6. Equestiarian	10,000	
7. Theft	15,000	
8. Interest	32,600	
9. Legal fees	12,600	
10. Loss on sale of fixed asset	16,000	

141.510

Trade profit
816510

1. Depreciation is a capital transaction and not allowable for trade profit. The amounts (excluding finance leases which are allowable as the lessor bears all risks) must be added back,

2. Wages are allowable provided they are paid before 9 months of the end of the accoutnnig period. The wages were paid a few days late only so are allowable.

The pension costs are only allowed if they were paid in the accounting period and therefore £13,770 must be added back as they will claim relief in the next year's tax computation.

Wages and NIC are allowable so no add back required.

3. Provisions are allowable if they follow GAAP which these provisions do as they follow FRS 102.

The reodcaration of the office is allowable as it is not a capital expense.

Removing partion walls is a capital expenses and relief will instead be given under the capital allowances rules. Therefore it must be added ack to calculate trade profit.

4. There is no add back required for the director's personal use as a Ltd company can't have personal use. The director will instead have a benefit in kind and pay tax / NIC accordingly. IT

is a no CO_2 car so no add back required.

The employee's car is a high CO_2 car as it has CO_2 >110g / km and therefore 15% of the lease expense must be added back to restrict available relief.

15% x 3600 = 540

5. Client entertaining is not a deductible expense and threfore the hotel and meals must be added back.

Whilst there are some allowances for tax deductible gifts, the gifts in question exceed the cost of £50 and therefore must be added back. This is despite the advert shown on the notebooks. Whilst the food hamper costs £50, all gifts of food must be added back. Therefore the full client entertaining must be added back to restrict relief.

£500 + 5(250+50) = 2000

6. Whilst sponsorship is generally an allowable expense, given the involvemnet of the MD's wife this may not be wholly and exclusively for the purposes of the trade and is therefore not deductible for tax. This is in line with the case of Executive Networks v O'Connor

7. Employee theft is a tax deductible expense so is allowable. However The director theft must be added back per Curtis v J & G Oldfield.

8. The finance leases is a trading expense so no restriction is required.

The late PAYE interest, mortgage interest and overdraft interest are all non-trading loan relationship debits and will not be included in trade profit. Instead they will be inclueded in loan relationship rules.

Add back = 17,000 + 1600 + 14,000

9. Legal costs are allowable when they are wholly and exlcusively for the purpose of trade and not capital in nature.

The debt collection is allowable as it is in the course of trading activity.

The renewal of lease is allowable if it is a short lease (less than 50 years), therefore the lease is allowable.

The investor agreement fees are a capital expense so must be added back.

10. The trucks being returned and sold are a capital transaction so are not allowable for corporation tax purposes. The loss must be added back.

The disposal will be included in the capital allowances calculation

11. The trucks will be included in capital allowance computation.

12. The company will have AIA of £1m

	AIA	WDA	SRP
TWDV b/f		116,000	125,000
Add:			
1. Partition walls	12,000		
2. Trucks	245,000		

Disposals			
3.		84,000	
Total	257,000	32,000	125,000
AIA @ 100%	257,000		
WDA @ 18%		5,760	
SRP @ 6%			7,500

Total 270260

1. Qualify as plant and machinery so elegible for AIA
2. Vans qualify for AIA
3. Trucks disposed at lower of cost and selling proceeds = £100k - £16k = £84k

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

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

Answer-to-Question-_3_

As Alan is the sole shareholder the company is regarted as close. This means loans made to a shareholder and thier associates may be subject ot a penalty tax calculated at 32.5% of the loan. This applies where there balance outstanding 9 months after the end of the accounting period during which the loan was made. The penalty tax is repayable 9 months after the end of the accoutning period in which the debt is repaid or written off.

There will also be tax and NIC consequences on loans made during the year to directors and employees if the amount owed exceeds £10,000.

1. Clara flowers is Alan's daughter and therefore an associate for s455 tax purposes. The loan is made to the partnership however it is treated as a loan to participator as Clara is a member.

Therefore, s455 tax £35,000 @ 32.5% = £11,375 will be due on December 1 2021.

However, as the laon is at interest free rates, a benefit in kind will arise on Alan as the loan is made to his associate.

The loan has a constant balance through the year so the simple method and the average method will give the same result. The benefit in kind is:

8/12 months x £35,000 x 2.25% = £525 for 2021/22

12/12 months x £35,000 x 2.25% = £788 for future years.

The benefit in kind must be reported on form P11D which is due on 6 July following the end of the tax year and the company will be required ot pay Class 1A NIC @ 13.8% on the balance (£72 2021/22 and £109 for ongoing years).

2. The loan to Jones cosmetics ltd is regared as a loan to a participator as Angela is Alan's wife and the sole sharheolder of the company. Whilst the loan is made to a company the company is treated as a relevant person if one of its shareholders is also a participaotr or associate of the participator of the lending company.

The £35,000 loan will therefore attract s455 tax of £35000 x 32.5% = 11,375. The liability is payable on 1 December 2022.

Whilst the loan is made to Jeremy's wife's company, it is not in the oridnary course of business and a benefit in kind may apply. However, the loan is at a rate well above the official rate of interest so no benefit arises.

The interest receivable is not trading income and therefore not be included as a deduction when calculating trade profits. IT will instead be included as a non-trading loan relationship.

3. The loan to emily hall is an interest free loan to an employee. Emily is not a sharheolder or asosciate of Alan and therefore s455 rules will not apply. However, As the loan exceeded £10,000 in the year a taxable benefit in kind arises.

When the loan does not exceed £10,000 after two repayments, there will no longer be a benefit in kind.

The benefit in kind will be calculated by either of the two methods.

Simple = (loan at start + loan at end)/2 x 2/12 months x 2.25% (HMRC official rate of interest)

= = (12,000 + 10,000)/2 x 2.25% x 2/12 = £41

Or the strict method:

1 month loan of £12,000 @ 2.25% = £23
1 Month loan of 12,000 @ 2.25% = £21

The taxpayer can choose either method however if the loan is significantly distorted HMRC can elect for the strict method. It is most beneficial to claim the simple method and the result is broadly in line with the strict method so there will be no HMRC challenege.

Emily will be taxed as if she has an extra £41 of income and this will need to be reported on her P11D. The P11D will be due 6 Jullly following the end of the tax year the loan was received in (being 6 July 2023).

AJ Clear Ltd will need to pay class 1A NIC @ 13.8 totalling £6. This will be due on 22 July 2023 (if made electronically) following submission of the P11D. The total benefit amount will be shown on acocmpanying form P11DB.

The Class 1A NIC will be deductible for CT purpsoes

The loan being written off will be treated as income for Emily and will therefore have income tax due at her marginal rate. The £9,000 written off should also eb shown on form P11D and class 1A

NIC will be due.

£9,000 @ 13.8% = £1,242

The class 1 primary and secondary contributions should be processed through the company's RTI submission on 30 Septemebr 2021.

The company will be able to claim a corporation tax deduction on the release of the loan through the non-trade loan relationship rules. However, no relief is available for the class 1 primary contributions paid by the employee.

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

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

Answer-to-Question-_4_

Les Clark

Termination payments can be taxed in various ways. Certain aspects are taxed as normal earnings and other aspects fall under s401 ITEPA 2003. s401 includes a total £30,000 tax free exemption. Above the exemption tax will apply as normal at marginal rate of tax however no class 1 NICs will be due. Class 1A NICs will be due however. The treatment of each item is shown below.

Salary

Les clark has been made redundant with immediate effect. Therefore, his £4500 salary for December is a paymennt in lieu of notice (PILON). This part of the redundancy payment will be taxable in full if the employment contract gives the employer the right to make a PILON. However if it doesn't, part of the termination payment will be post employment notice pay and not elegible for the £30,000 exemption under s401 ITEPA 2003

Assuming that the allowability of a PILON is not in the contract, the post employment notice pay will be the full £4500.

PEnsion contribution

A pension contirbution made in relation to a termination is fully exepmpt from tax and NICs. Therefore this is very tax efficient.

Statutory redundancy payment

The statutory redundancy payment will be taxed under s401 and elgible for the £30,000 tax free exemption. Class 1A NICs only will only be due on the portion that exceeds £30k.

Restrictive Convenant

The restrictive covenant is taxable in full and it is not elegible for the exemptipon.

Ex-gratia redundancy payment

The ex-gratia payment is elegibile to be taxed uder s401 and will receive the £30,000 exemption.

Transfer of car

The market value of the car at the date will be considered a terminiation payment and taxable under s401. The £30k exemption will be priortised to cash received.

Training course

The provison of a training course is a fully exempt benefit and will not be subject to tax.

2.

Les' will have earnings of 4,500 for 9 months totalling £40,500. he will therefore have 9500 basic rate band remaining and the excess will be taxed at higher rate. This is also true of the national insurace rates.

Calculation

Fully exempt

Training 1,500
Pension 3,000

Tax = 0

Taxable as normal

Gross salary = 4,500
Restrictive covenant = 1,000

Total = 5500

Tax @ 20% 1100
NIC @ 12% 660
1A NIC @ 13.8% = 759

Basic rate remiaing = 4000
Taxable under s401

Stat. redunancy = 9,350
Ex - gratia = 28,000
Car = 6750

Total = 44100
Exempt (30,000)
Excess = 14,100

Tax
4000 @ 20% = 800
10100 @ 40% = 4040

Class 1 NIC not due

Class 1A 14,100 @ 13.8% = 1,946

Total due

1100+660+759+800+4040+1946 = 9305

This will be due via PAYE on 22nd January 2022 via a FPS.

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

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

Answer-to-Question-_5_

If the sale of the company is completed on 1 May 2022, they shareholders will receive proceeds of £1,922,000.

The first £250,000 would repay Mr B's preference shares. The nominal value of the preference shares is only £125,000 so a capital gain of £125,000 will arise on the disposal.

Following this, there will then be £1,672,000 to be dsitributed amongst the ordinary shares accordingly.

At the transaction date, the ordinary share capital of the company will be as follows.

A Ords - 750
B Ords - 200
C Ords - 50
D Ords - 45

Total = 1,045

The proceeds will then be allocated as follows:

A ordinary shares 750/1045 x 1,672,000 = £1,200,000 (Mr A)
B Ordinary Shares 200/1045 x 1,672,000 = £320,000 (Mr B)
C Ordinary Shares 50/1045 x 1,672,000 - £80,000 (Mrs C)
D Ordinary Shares 45/1045 x 1,672,000 = £72,000 (Mrs D)

The base costs of the shares will be the amounts calculated below, being the nominal value of the shares.

A Oridnary - 750 x £750 = 562500
B Ordinary - 200 x £200 = 40,000
C Ordinary - 50 x £50 = £2500

The D ordinary shares were acquired as part of an EMI option which have different rules for calculating base cost.

The base cost of an ENI share is the amount paid for the shares plus the amount subject to income tax.

As the shares were not granted as a discount and were granted at the agreed market value of the shares, the base cost will simply be the amount paid for the shares, being 45 x £150 = 6750

This will result in capital gains as shown below

Preference shares

Proceeds	250,000
Base Cost	125,000
Gain	125,000

Ordinary Shares

	A	B	C	D
Proceeds	£1,200,000	£320,000	£80,000	£72,000
BAse cost	562500	40,000	40,000	6750
Gain	637,500	280,000	40,000	65,250

Business Asset disposal relief is available when directors sell shares in thier personal trading company. Matterhorn Ltd is a travel planning companyt and therefore a trading company.

A personal company is one where the shareholder owns at least 5% of ordinary share capital and is able to exercise 5% of voting rights and the shareholder must also be entitled to either

5% of assets on winding up or
5% of the proceeds of a disposal of the whole of the ordinary share capital

Therefore, Matterhorn is a personal trading company of,

Voting rights

A - 750/1045 - 71%
B 200/1045 - 19%
C - nil
D - 45/1045 = 4%

Therefore C and D and therefore Mrs C / D fail the voting test

Mr A and B do meet the voting / winding up / sale tests and are elgible for BADR. Their gain will therefore be taxed at 10%. The claim for BADR should be made by the first anniversary of 31 Janaury following the tax year in which the disposal takes place.

The lifetime limit of BADR is £1m

	A	B	C	D
Gains	637500	405000	40,000	65250
Less AE (12300)				
Chargable	625200	392700	27700	52950
@10%	62520	39270		
@20%			5540	10590

Due 31 Janaury 2022.

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--------------ANSWER-5-ABOVE---------------
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--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

Profit allocation

1 May to 3o Sep 2020

	Total	Anton	Nico	Natasha
Profit	158,300			
Salaries	(10417)	10417		
Interest	(8333)		8333	
PRofit share	139550	69775	69775	
Total		80192	78108	

1 Oct - 31 Dec

	Total	Anton	Nico	Natasha
Profit	95000			
Salaries	(11250)			11250
Interest	(8000)		8333	
PRofit share	75750	34088	22725	18934
Total		34088	31058	30184

1 Dec - 30 April

	Total	Anton	Nico	Natasha
Profit	95000			
Salaries	(11250)			11250
Interest	(8000)		8333	
PRofit share	75750		45450	30300
Total			53783	41550

Year end 30 April 2022

Profit	400,000		
Salaries			45000
Interest		32000	
Profit share		193800	129200
Total		225800	174200

Natasha

Natasha joined the partnership on 1 october 2020. She will therefore be subject to the opening year rules. In the first tax year (2020/21) she will be taxed from the period she joined 1 Oct 2020 to the end of the tax year on 5 April 2021. This is profits of £30184 + 41550 = 71734

In 2021/22 she will be taxed on the first 12 months of trading, being 1 Ocotber 2020 - 30 September 2021. This will generate 6 months worth of overlap profit as the period from 1 OCtober to 5 April will be double taxed. She will be able to claim this as releif in the period of cessation or possibly earlier. For 2021/22 her tax will be 71734 + 6/12 x 174200 = 158,834. The overlap relief will be £71734.

From 2022/23 and onwards, she will be assessed under the current year basis.

Anton

Anton will be assessed under the current year basis up until the year of cessation. In the year of cessation, he will be taxed on the period from the day after the previous accounting period ended until the day he retires from the partnership. In the year of cessation, his taxable profit will be reduced by his overlap profits brought forward of £64,000.

Alan retired from the partnership on 31 December 2020 so his profits will be taxed on the £126,000 from year ended 30 April 2020 and his profit from the 1 May 2020 to 31 Dec 2020, being 114,280. This will then be reduced by his overlap profits brought forward of 64,000 leaving a taxable amount of 176,280.

2.

Rental income

When a partnership has income fro untaxed sources, this will be chargable on the same current year basis as the trading income. Furthermore, the rental income is treated as a second deemed trade. Therefore, the nomral commencment, cessation and overlap rules will apply when Natasha joins and Anton leaves the partnership. This will give rise to overlap profits as Natasha joined part way through the tax year.

Dividend income received by partnerhsips is allocated to the partners using the profit-sharing ration of the accounting period and is apportioned to the tax year.

The dividends will therefore be taxed as follows

1 September 2020 - £2400, £1200 (50%) to Anton and Nico

1 March 2021, - £5,600, £3360 / £2240 (60/40%) to Nico and Natasha

Section 203 ITTOIA allows the dividends to be allocated dividend income to the tax year on a time apportionment basis. Therefore, the dividend income from the years ending 30 April 2020 and 30 April 2021 can be used to computate the taxable income. However, this is only applicable if it is necessary to use the mehtod and as there have been partnership changes it is more correct to apportion the amoounts on a receipt method as shown above.

3)

2020/21

The partners will be required to pay class 2 NIC if they are a member of the partnership and entitled to a share of the profits. This is at a rate of £3.05 per week. Anton and Natasha will not be required to pay for periods which they were not a member of the partnership before they joined / after they retired.

The partners will also be required to pay class 4 NICs at a rate of 9% on trading profits between £9500 and £50,000 and 2% on amounts in excess of £50,00. Profits below £9500 are not chargable as they are below the lower profit limit.

As Natasha was an employee and NED of Softcheck plc she will be required to pay class 1 primary contirbutions on her earnings. This will be at a rate of 0% below £9500, 12% between £9500 and £50,000 and 2% on amounts in excess of this.

If Peter joins the partnership he will be a salaried partner. A salaried partner is a partner in only name and Peter will be a senior employee for tax purposes. He will accordingly be subject to NIC as any other employee being class 1 primary contributions at the same rates as Natasha. Furthermore, the partnership would have to pay class 1A NICs at a rate of 13.8% on his salary.