



# The Chartered Tax Adviser Examination

Sample Paper

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## Application and Professional Skills

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### Owner Managed Businesses

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TIME ALLOWED – 3 ¼ HOURS

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- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- Write on one side of the paper only. Do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

You are a tax senior in a firm of Chartered Tax Advisers. Your tax partner, Francesca Fence has recently received a letter (**EXHIBIT A**) from Horatio Stiles, who has been a client of your firm for many years. Horatio's company, Stiles Construction Ltd, has generated surplus funds from its trading activities and he would like advice relating to these funds and the transfer of the company to his daughter, Patti.

Francesca has asked you to review the letter from Horatio and prepare a draft report to him addressing the points raised in his letter. She has told you that at this stage she is mainly interested in the principles involved and does not require you to prepare any detailed personal tax computations for Horatio.

The following exhibits are provided to assist you:

**EXHIBIT A:** Letter from Horatio Stiles to Francesca Fence

**EXHIBIT B:** Further information from client files of Horatio Stiles and Stiles Construction Ltd

**EXHIBIT C:** Pre-seen information

**Requirement:**

**Prepare a draft report to Horatio Stiles, for review by Francesca, which advises on the transfer of shares in Stiles Construction Ltd to Patti and the use and extraction of surplus funds in Stiles Construction Ltd**

## EXHIBIT A

### Letter from Horatio Stiles to Francesca Fence

Francesca Fence  
Fence Chartered Tax Advisers  
1 Charlton Road  
Barchester

Horatio Stiles  
1 Barlow Road  
Barchester

30 April 2018

Dear Francesca

Stiles Construction Ltd has performed well over the last few years and has accumulated quite a large amount of surplus funds. In February, I transferred £185,000 of these funds to a company deposit account with our bank to try to get some return on these funds. Earlier this month I also used a relatively small amount (£15,000) to acquire some UK quoted shares, which should also generate a bit of income and possibly capital growth. As the interest rate on the deposit account is pretty low, in addition to leaving things as they are, I am considering two alternative uses for these funds:

- 1) Stiles Construction Ltd will purchase a small industrial unit for £300,000 to rent out. This would generate a rental income for the company which would be significantly greater than the return on a deposit account and may provide capital growth. The company would take a bank loan to finance the difference between the purchase price and the balance on the deposit account.
- 2) I will withdraw the £185,000 either directly or by way of the company making an additional lump sum contribution to my pension fund (we have a group personal pension scheme).

Can you advise me on the tax consequences of these options?

As you know, last month we received an unsolicited offer from Largeco Ltd of £1.2 million for all my shares. Whilst I think that the offer was fair, I decided that I do not wish to sell the company as I would like to give it to my daughter Patti who, as you will be aware, helps me run the company. I am not sure whether to transfer them to her now or to simply leave them to her in my Will. Can you let me have your thoughts on this please?

I very much look forward to hearing from you.

Yours sincerely

Horatio Stiles

## **EXHIBIT B**

### Further information from client files of Horatio Stiles and Stiles Construction Ltd

#### Remuneration and pension

Horatio's drawings from Stiles Construction Ltd comprise a salary of £45,000 per annum plus a dividend of £50,000 each tax year.

Stiles Construction Ltd makes an annual contribution of £5,000 on Horatio's behalf into an HM Revenue & Customs registered occupational pension scheme. Horatio does not make any pension contributions himself. The company has made these contributions for the last 10 years.

#### Previous lifetime gift

The only gift that Horatio has made was of the former family home, which he gifted to Patti on 31 January 2010 when it was valued at £350,000. Since that date he has not lived there and lives in a rented property.

The shares in the company are his only significant asset.

On his wife Sheila's death in 2008, she had an estate of £500,000 in quoted shares which she left to Patti and to her sister.

#### Stiles Construction Ltd

Before using any of the surplus funds in the ways described in Horatio Stiles letter dated 30 April 2018, taxable total profits for the year ended 31 March 2019 are expected to be approximately £120,000.

## EXHIBIT C

### Pre-seen information

- Client Name - Horatio Stiles  
-  
Client Background - Horatio was born on 1 May 1960  
- He was married to Sheila until her death on 31 January 2008  
- He has not remarried  
- Horatio's only child is Patti  
- Patti was born on 1 March 1990 and is unmarried  
- Horatio's business is Stiles Construction Ltd

- Business - Stiles Construction Ltd is a building company  
- It was incorporated on 10 January 1973 by Horatio's father.  
- The sole director is Horatio Stiles  
- There are 1,000 ordinary shares of £1 each in issue, all of which are held by Horatio Stiles.  
- Horatio inherited his shares from his father, Albert, on his death on 31 January 1999.  
- On 31 January 1999 the shares were valued at £13,000

- VAT - Registered entity: Stiles Construction Ltd  
- Registration number 987654321  
- Registration date 10 January 1973  
- No option to tax has been made

- Corporation Tax - Taxable Total Profit for Stiles Construction Ltd

<u>Year Ended</u>	<u>£</u>
31 March 2018	120,500
31 March 2017	88,746
31 March 2016	102,916

### Summarised accounts for Stiles Construction Ltd for the year ended 31 March 2018

#### Profit & loss account for the year ended 31 March 2018

	£	£
Sales		643,250
Cost of sales		(301,800)
Gross profit		<u>341,450</u>
Other income:		
Bank interest	4,300	4,300
Expenditure:		
Director's remuneration	45,000	
Bank loan interest	3,500	
Employment costs	145,000	
Other administration costs	34,750	
		<u>(228,250)</u>
Net profit		<u>£108,900</u>

Balance sheet as at 31 March 2018

	£
Freehold property	50,000
Plant & machinery	47,500
Debtors/inventory	76,750
Bank current account	21,250
deposit account	185,000
Less: creditors	<u>(67,500)</u>
	<u>£313,000</u>
Capital & reserves:	£
Share capital	1,000
Profit and loss	<u>312,000</u>
	<u>£313,000</u>

Employment costs include all (including director's) Class 1 secondary National Insurance contributions and company pension contributions

The bank loan interest relates to a loan taken out to purchase some equipment used in the company's trade.

The freehold property is used in the company's trade and was acquired in January 1997.