

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	844	3970	4722
Section 2	491	2338	2787
Section 3	645	2749	3336
Section 4	629	3002	3610
Section 5	653	3016	3537
Section 6	541	2370	2768
Total	3803	17445	20760

Answer-to-Question- _1_

80:20 for Akshar and ben, 4% per ann on 160k for A, Cora joined 1 JAN 24 (3 months)
 50:40:10 A, B ,C No interest.

to arrive at the tax adjusted profit for a partnership first the partnership computation needs to be completed and then taxable profits allocated to each partner accounting for fixed profits and interest, which are not seen as trading profits but rather drawings.

	W	Value £	Notes
Accounting profit		(189600)	
Depreciation		19700	Depreciation isnt an allowable expense and capital allowances are used instead.
Depreciation on FL		(5400)	Finance lease depreciation is allowable expenditure.
Staff costs		0	These are allowable costs so no addback required, no restriction as trade continues
Rent	1	10000	
Paint		7600	This is capital expenditure as such added back, as incurred before moving into new offices.
Lease prem	1	162	
Cars		6800	Add back private use by partners. (40% * 17k)
Fines		1900	Fines are not allowable
New lease		5400	New lease costs eg legal fees are not allowable.
Capital allowances	2	(24544)	
Total		(167982)	

Workings

1)

Moving out of the property the lease is not being used in the trade therefore not wholly and exclusively for the purposes of the trade as such 5/12 of 24k is addedback.

Lease costs an element £900 is the propotion relating to the year however a lease is split between capital and revenue expnediture, only the revenue "rent" is allowable as such

$900 * (10-1)/50 = \text{capital element} = 162$ therefore 738 is allowable as revenue.

2)

Capital allowances

	MP	SRP	CAs
TWDV Bfwd	6800	0	
Additions	23320		
AIA	(23320)		23320
WDA (18%)	(1224)		1224
TWDV Cfwd	5576		24544

Additions are mainpool assets only.

Allocation of loss to partners

Loss being 167982

	Notes	Akshar	Ben	Cora
9 months				
Interest		4800		
Loss split		(104630)	(26157)	
Loss for period	125987	(99830)	(26157)	
3 Months				
Salary				11250
Loss	53245	(26623)	(21298)	(5325)
sub total	41995	(26623)	(21298)	5925

Allocation		3292	2633	(5925)
Loss		(23331)	(18665)	0
Total loss for the year		(123161)	(44822)	

Where a partnership makes a taxable loss and some partners make a profit due to allocation of fixed profit share then the notional profit is reallocated, this is allocated as a ratio of the other partners taxable loss. (Same is true for one partner making a loss but overall profitable partnership).

Therefore cora doesn't make a loss and her taxable profit share is reallocated to Akshar and Ben.

NB

rental income: the rental income would be added abck however started on 1 april 2024 therefore outside the year. Going forward this would be assessed on the partners peronsally in line with their profit share, rental costs would be a deduction from the property income however property losses are more restricive than trade.

Debt collection and accountacny fees are allowable cost deductions.

Part 2

The most simple relief would be to carry forward losses agasint future tradeable profits of the partership, this is automatic if no other reliefs are taken. This is not an optimal use of tax losses however due to tax being relieved later and the time value of money factor.

Akshar has other income in the year ie rental income and capital gains. He can complete a current year claim which will allow trade profits to be set off agasitn his rental income, this is an all or nothign claim as such would lose his personal allowance. Not overally effective as the tax rate for his NSI will be less than 20%.

He made gains in the year as such he could do an extended current year claim to offset trade losses agasint the capital gain too, he must have completed the current year loss claim to enable this. Again this wouldn't be overally tax efficient given CGT is charged between 10/20%. This is again an all or nothing claim.

He could also do a carry back claim agasint the 22/23 total profits, this is again all or

nothing so may risk losing his personal allowance, without knowing his income for that year including the trade it is difficult to say if this is a better option. This claim could be done first and then if losses remain the 23/24 current year claim.

Ben has the same options above though not having any other income in the year (assumed) this is likely not very viable.

As Ben has started trading in the prior year 22/23 he is able to carry losses back for 4 years agasint his other income including employment income. This is agasin all or nothing and completed on a FIFO basis ie the oldest year first. This would be very useful as would relieve tax at 20/40% and retain his PA.

Dates / limits

Losses for ST and partners on sideways loss relief are limited to £50k or 25% of total adjusted income. This would restrict the sideways loss releif available to Ben, and may work in his favour.

The claim for carry back loss relief has to be claimed within 1 year anniversty of 31 January ie 31 Jan 2026 for the 23/24 tax year.

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

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

Answer-to-Question- _2_

Part 1)

The winding up of a company can have income or capital route the capital route requires a formal liquidation if reserves > £25k. The business is a trading business, she has owned the shares for over 2 years and is an employee (director) of the business, and owning 100% of the share capital (limit for BADR is 5%). She would therefore qualify for BADR which means the gain is taxed at 10% upto £1m of gain provided. (she has not used the relief previously per Question).

Proceeds	300000		
Less cost	(1)		
Gain	299999		
AEA	(6000)		
Taxable gain	293999		
Tax 10%	29400		

Part 2

There is targeted anti avoidance rules commonly referred to as phoenix rules to prevent people from winding up a business, extracting profits under capital gains and then restarting the same business under a different company.

The criteria that if met would mean the distribution is taxed under the income route are as follows:

Own >5% in the original company (shares or ownership), she meets this.

Restart a business or company performing the same or similar trade / industry. (this would be met given magic threats and fantasy fit are similar industry - clothing retail). this doesn't apply if she were an employee.

The winding down of the original company was completed for avoidance of tax. This is somewhat subjective in this question as the reason the business was wound down was due to a decline in trade, she is then partnering with another business in a similar industry. It

would be advised that prior to the liquidation that advance clearance would be sought.

In the worse case the capital amount would be disallowed and the income route would be taken account of.

The distribution would be split between a capital and income.

The capital amount proceeds are deemed to be the original subscription price ie £1 in this case, as such there is no gain or loss generated as Virginia was the original subscriber.

The remaining would be treated as income ie £299,999

The increase income would lose her personal allowance and be calculated at her marginal rates.

	Original		Additional income
Div	100000		399,999
PA	(12570)		0
Total	87430		399,999
Div all £1k	0	Div all £1k	0
36700 8.75%	3211	36700 8.75%	3211
49730 33.75%	16784	87440 *33.75%	29511
		274859*39.35%	108157
Total	19995		140879

Capital route: 49395 (19995+29400)

Income: 140879

Difference in tax liability. 91484

If the phenix rules were not deemed to be breached then the capital gain under part 1 could be rolled over due to investment in close company fantasy fit limited. Thus reducing the capital gain further. It is likely she would also qualify for BADR in 2 years time which would may have previously proposed a choice between BADR gain at 10% taxed now vs 20% in the future.

BADR must be claimed within the anniversary of the tax reutrnr filing deadline ie 31 Janaury 2027 for the 24/25 return.

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

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

Answer-to-Question- _3_

Part 1

Olena

Pension contributions do not fall into the scope of OPRA rules (explained below for Devon) as such this is an exempt benefit for Olena and will save NIC Class 1 secondary at 13.8% less the CT saving on this at 25%.

NIC saving 690
CT loss(173)

Net saving £517

Devon

Rules regarding the use of salary sacrifice for employees can be quite punishing as if the benefit isn't specifically exempt then the BIK is the higher of either cost to employer (normal BIK rules) or the amount sacrificed, this can bring previously exempt benefits into scope.

Car benefit 25%

Cars are taxed based on their CO2 rating (fuel) and their list price. A 100g/km car is taxed at 25% (20% +5% for the 25gkm over 75%). On this list price of £25600

This being £6,400, as the SS amount of £7k is great than this. **£7k is the taxable benefit**

Private fuel follows the above % rules but based on a fixed rate of £27,800 therefore the BIK is £6950, **the amount SS is lower and therefore the BIK is 6950**

Parking is normally an exempt benefit if provided by the employer. However as noted above the OPRA rules bring it into scope, and therefore is the cost to the employer in this case of £600.

Cost to provide benefit:

	Net of SS		
Car	(800)		
Fuel	300		
Parking	100		
total	(400)		

NIC impact

	Blk	NIC 13.8%	
Car	7000		
Fuel	6950		
Parking	600		
total	14550		
Less SS	(8500)		
Net NIC	6050	835	

CT impact 25% of NIC less saving from providing benefits =109

Olena	(517)		
Devon SS	(400)		
Devon NIc	835		
Devon CT	(109)		
Total	(191)		

In total there is a net saving of £191 for providing the benefits to Olena and Devon.

Part 2

Tson Limited is a close company as there are fewer than 5 participators ie 2 share holders who are also directors.

As such is in the scope of s455 tax on the loan amount. The loan is above £15k and therefore in scope. The original loan of £44k was borrowed during the year and repaid within 9 months of the year end. This would normally mean no S455 tax is due. However there is anti avoidance rules that come into scope where a new loan is taken out within 30 days of the original repayment (unless the repayment was chargeable to income tax ie

dividend from the company).

Therefore s455 tax on the £30k (amount outstanding at 30 September 2023). This would be at 33.75% ie dividend rate for upper rate - £10,125

The loan was repaid on 6 Feb 2024 and therefore would be able to be reclaimed for the 31 March 2024 period on the normal tax due date ie 1 January 2025 (9 months and 1 day). This would be in the form of a credit agasint the CT liability due however if the S445 recoverable then a repayment would be made by HMRC.

The benfit in kind would need to be filed via P11d as not possible to be payrolled. this would be due by 6 July 2023/2024 for each year. The Class 1A NIC would be due by 22 July of each year assuming paid eletronically.

For Mia

The loan is in scope of BIK rules being interest free and above £10k. Therefore a deemed interest would be calculated on the loan this would be at default an average rate balance when loan is taken out less balance when loan is repaid / period * official rate of interest (2/2.25% dependign on rate at the time).

Mia could opt to use the actual interest calcaultion ie daily rate if likely to be taxed advantaged to Mia. HMRC may force this to be the case if the average rate (as above) were to be significantly distored.

The tax would be recovered via self assessment.

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

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

Answer-to-Question- 4

There are three enquiries to assess - Antonio's disposal, Topolino's June 2021 return, and Topolino's June 2022 return (R&D).

HMRC made enquiry into a return provided it is within the time allowed - if the return was delivered on or before the filing date then up to 12 months after the day on which the return was delivered. If the return was late then up to and including the quarter day next following first anniversary of the day on which the return was delivered (31 Jan, 30 April, 31 July, 31 October).

Discovery assessments can be opened provided:

that an amount of income tax or capital gains tax ought to have been assessed but has not been assessed,

That an assessment to tax is or has been insufficient or,

That any relief which has been given is or has been excessive.

And where:

The situation has been brought about by careless or deliberate action by the taxpayer or

The officer raising the assessment could not have been reasonably expected on the basis of the information made to him before that time to be aware of the situation mentioned.

Antonio

applying the above limits to Antonio's return the return was filed on time being 30 January 2022, therefore enquiry into the return would have to have been made by 30 January 2023. This is not the case as the enquiry/compliance check was opened on 31 March 2024.

Therefore applying the discovery assessment benchmarks the 4 year time limit would be 30 January 2026, which is in scope. The time limits if careless would be 6 years and deliberate 20 years.

HMRC need to prove either the calculation of goodwill was careless/ deliberate or that there wasn't sufficient information for an enquiry.

To disprove a claim of carelessness then Antonio could point to if he received professional advice from a qualified accountant / tax advisor when preparing his return, if this was the case.

The second point regarding if HMRC had information to be aware of the situation, the disposal is present however the limited disclosure of "evaluation of goodwill has been carried out" would likely not be sufficient and Antonio should have provided a detail calculation of how the goodwill value was arrived at.

Topolino

The tax return was filed on time as limit is 12 months from the year / period end ie limit would be 30 June 2023. The amended return filed on 31 March 2024 is also within scope as up to 12 months a return can be amended by a tax preparer. ie 30 June 2024.

This refreshes the enquiry window for HMRC being 12 months from the amended return date submitted ie 31 March 2025.

Therefore the enquiry is in a valid time frame. as opened on 30 September 2024.

Antonio Penalty position

HMRC have calculated the CGT due of £70k. Where additional tax is due on assessment penalties can be levied by HMRC depending on the classification, for careless maximum is 30%, deliberate is 70% and deliberate and concealed is 100% of the underpaid tax.

These can be reduced depending if the assessment was prompted or unprompted. For careless and prompted the minimum penalty is 15%, given HMRC has opened a discovery assessment this would be classified as prompted. Therefore a minimum of 10,500 would be due. HMRC can suspend careless penalties for up to 2 years so provided no additional issues with Antonio's returns this would be waived.

Minimums: Prompted is 50% of the first paragraph's penalties. Unprompted careless is nil, Deliberate is 20%, and deliberate and concealed would be 30%.

Interest would also be charged at the official rate of interest on any unpaid tax found to be due, therefore prompt payment would be recommended. Interest wouldn't be waived if tax is found to be due.

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

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

Answer-to-Question- _5_

Taxable loss		(296000)		
Capital allowances (BC)	1	52376		
Balancing charge		6000		Computer equipment proceeds are added as a balancing charge as FYA was claimed on them.
Loss on stock		(8000)		Allowable trading deduction
Goodwill		120000		As business was incorporated pre 2002 then goodwill is trade related and not capital.
Adjusted taxable profits		(125624)		
Gain - property	2	86000		
Gain on warehouse	3	13860		
total capital gain		99860		

Workings

1)

		MP		
TWDV		67624		
Machines		(120000)		
Balacnign charge		52376		
TWDV cfwd		0		

2)
 Gain on factory

Proceeds	236000		
Less cost	(150000)		
Gain	86000		

Original Factory			
Proceeds	220000		
Cost	X		
Gain	70000		
RoR	(20000)	Proceeds not reinvested £220-170k	
Gain	50000		
New base cost	150000	(170k-20k)	

3)
 Gain on warehouse
 as SBAs were claimed this effectively reduces the base cost of the asset.

time since 1 May 2020 to 31 July 2024 being 4 years and 3 months at 3%

$$46000 * 3\% * 4.25 = 5865$$

Proceeds	105995		
Less cost	(98000)		
add SBA	5865		
Gain	13860		

SBA are added to the proceeds in the computation rather than adding to cost, not shown above.

Utilisation of losses

	Notes	Dec2021	Dec 2022	Dec 2023	July 2024
Trade profits		421300	87900	24884	0
Loss carry back (terminal)	3/4		(84880)	(24884)	
Chargable gain		0	0	0	99860
Use of brought forward losses	1				(84000)
Current year claim	2				(15860)
QCD		(12000)	(3020)	0	0
Total profits		409300	0	0	0

Loss memo

	Above ref	Trade	Capital
Brought forward			84000
Current year loss		125624	
Utilisation of brought forward losses	1		(84000)
Current year claim	2	(15860)	
Py claim 2023	3	(24884)	
Extended loss 2022	4	(84880)	
Unrelived losses		0	0

capital losses can only be relieved against capital gains as such it is tax efficient to relieve these first allowing for more trade losses to be carried back.

A current year claim will be used to relieve the trade losses against the remaining gains, this must be compelled to allow loss carry back claims. This results in the loss of the QCDs.

A prior year claim would also be performed to allow for the relief of losses in the December 2023 year.

Due to the cessation of trade on 31 July 2024 an extended loss carry back claim for

terminal loss relief would be available as such we can carry back the remaining losses to the y/e 2022. The terminal loss relief is 36 months from the start of the accounting period for 12 months of losses.

The losses are fully used in the December 2022 year, if this wasn't the case then losses could be carried back to 2021 if required. ie 36 months from 1 January 2024.

CT paid would be able to be recovered for the loss carry back.

Part 2

Factory this would have the base cost paid ie 236k for the company. If the company sells the property this would be the allowable cost in future. No allocation of fixtures and fittings were included in the pool therefore there would be no allocation for Fargum.

Machinery / computers - the base cost of £120k would added to the companies main pool for capital allowances, AIA could be claimed as are unconnected, as they are not new FYA wouldn't be available.

Warehouse - SBAs could be claimed on the original £46k at 3% less what has already been claimed. The remaining amount would be allowable cost on sale of the property.

Inventory - the cost of the inventory would be that of what was paid £36000, once sold would be allowable cost in arriving at taxable profit.

Goodwill - Goodwill would be amortised in the accounts under FRS102, however no allowance is made for this goodwill in the accounts as such the amortisation charge would be added back. This is because no other intangibles (IP) were purchased with the goodwill where there would be an allowable element, lower of cost and 6X IP amortised for tax at 6.5%.

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

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

Answer-to-Question- _6_

Capital allowances

	Notes	MP	SRP	PU Van
TWDV Bfwd		9000	900	5000
Solar pannels	1		10885	
Printers	2	1500		
Desks	3	700		
Office furniture	4	0		
Wood working	5	12000		
Van	6	26000		
Saw machine	7	7000		
PC	9	(250)		
Van	10			(4000)
Scrap		(1200)		
	Capital allowances			
FYA	26000	(26000)		
AIA	17550	(17550)	(10885)	
BC/BA	500	0	0	(1000) 50%
sub total		11200	900	0
WDA (18/6%)	2016	(2016)		
Small pool allowance	900		(900)	
TWDV Cfwd		9,184	0	0
total CA	47166			

Notes

1)Solar pannels are SPR assets and available for AIA

2) Printers - purchased from a related party as such they are brought in at MV (amount paid in this case), no AIA is available.

3) Brought in at MV, no AIA as connected.

4) Gifted assets while not strictly at arms length they are not "connected" for tax purposes therefore nil value.

5) The machine was in use at the year end, as such the full balance is added to the pool as it is a hire purchase asset.

Interest is allowable trade deduction in the P&L

6) New van is eligible for FYA as is electric and new. I have assumed this is not a replacement for his old van which had private use. If there were PU element for the new van this would be in its own pool and only the BU element would be transferred to the CA deduction in calculating taxable trading profit.

7) The asset is in use however there are extended credit terms (>4 months) therefore only the amount paid at the year end is allowable, remainder will be added to the pool when paid.

8) the number plate is not in use and therefore would not be allowable for capital allowances, in addition the personalised number plate would be treated as an intangible for the purposes of tax and amortisation would be allowed inline with the accounting policy. A SL deduction of 4% could also be used for the purposes of tax.

9) The disposal is at MV as to a charity, a QED would then be allowed in calculation of TTP.

Part 2

	W	NSI	SI	DIV
Taxable profits		182500		
CA (part 1)		(47166)		
Bank interest			1215	
Divs				2285
Premium bonds (exempt)			0	
trade losses bfwd		(12000)		

total		123,334	1215	2285
Less PA	1	0		
Total		123334	1215	2285
Basic rate 20%	2	7900		
Higher rate (83834*40%)	2	33534		
Saving allowance 0%			0	
savings 40% 715			286	
Dividend allowance (1000)				0
Dividends at 33.75%				434
Total income tax		42154		

NIC

Trading income above	123,334		
Less losses	(3000)		Trade losses are always carried forward for purposes of NIC class 4
Less lower earnings limite	(12570)		
Income in scope of Class 4	107764		
37700 *9%	3393		
70064 *2%	1401		
Class 4 liability	4794		
class 2 liability	179		£3.45 *52 weeks

Workings

1) Personal allowance reduced by £1 for every £2 over £100k. as total income is greater

than £125,140 no PA is present.

2)Gross up bands for gift aid.

$$1440 * 100 / 80 = 1800$$

New bands - 39500

Higher rate - 87440 (129640)

As the total income of 126834 is less than the adjusted higher rate, the saving allowance of £500 available to higher rate tax payers is not removed as he isn't an additional rate tax payer.