

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Owner-Managed Businesses

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, 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.

- 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 indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a manager in OT Accounting, a firm of accountants and Chartered Tax Advisers.

Your clients are Michael and Suvil Blatt, Jo Peskal and Fran Bowler.

You and your tax partner, Paul Rice, recently met with the above individuals (**EXHIBIT A**) who wish to acquire and operate a local restaurant, which is currently owned by RS Ltd.

The following exhibits are provided to assist you:

- EXHIBIT A:** Meeting notes prepared by you
- EXHIBIT B:** RS Ltd Profit & Loss account, Balance Sheet and Corporation Tax computation to 30 June 2025
- EXHIBIT C:** Extract from a valuation report on RS Ltd
- EXHIBIT D:** Profit and Loss forecasts for the three years to 31 March 2029
- EXHIBIT E:** Pre-seen information

Requirement:

Prepare a report to your clients, for review by Paul Rice, providing advice on the most appropriate way to acquire and operate the target business and how to structure their individual investments.

EXHIBIT A

Meeting notes prepared by you

Client: Michael and Suvil Blatt, Jo Peskal and Fran Bowler (“the clients”)
In attendance: The clients, Paul Rice and me for OT Accounting
Subject: New business venture
Date: 26 October 2025

The clients were referred to us by Goodwise Legal LLP.

Michael and Suvil are married, Jo and Fran are unrelated friends. Michael and Suvil are freelance journalists with a focus on the hospitality sector. Jo is a promising and ambitious chef who is unhappy with the restrictions imposed by her current role. Fran is a successful entrepreneur, who has recently sold a majority share in her IT company for a substantial capital gain.

They have identified a struggling local restaurant “The Rising Star” which they believe can be made to operate profitably. The existing business and premises are owned through a limited company “RS Ltd”. Michael provided accounts and tax computations for the business prior to our meeting (**EXHIBIT B**).

The business was impacted severely by Covid19 and the current owners have failed to invest. Initial due diligence suggests that the company has not operated PAYE correctly for casual and part time staff. The company has been subject to a long running HMRC enquiry in relation to substantial monies paid to the directors through an employee benefit trust in 2019 and 2020.

The asking price for the business is £900,000, which is within the range that their valuers suggested (**EXHIBIT C**). The owners of RS Ltd have not indicated any preference as to selling the shares of the company or its trade and assets. The acquisition is likely to take place in spring 2026.

The directors of RS Ltd have confirmed that:

- 1) The company is registered for VAT.
- 2) There is no option to tax in place on the freehold property.
- 3) None of the assets are within the capital goods scheme.

Following acquisition, the expected conversion and fit-out costs would be £300,000 giving a total funding need of £1.2 million to be sourced as follows:

- 1) £200,000 through a personal investment of £50,000 from each individual. This will give each party an equal share in the business.
- 2) £600,000 of bank funding to be secured directly or indirectly on the business premises.
- 3) £400,000 from Fran as a personal loan.

Michael and Suvil will fund their investment by cashing in personal ISA investments. Fran will fund her investment from her available cash.

Jo will need to borrow in order to fund her investment.

Jo will work full time in the business and will be remunerated at a market rate. Michael and Suvil will each spend approximately 10 – 15 hours per week in the business. As a business angel, Fran will be available to provide strategic advice as required but is unlikely to be employed in the business.

Suvil has prepared profit and loss forecasts for the three years to 31 March 2029 based on what they believe the business can generate under their management and control (**EXHIBIT D**).

They anticipate running the business for between four and five years, realising their investment through a sale of the business in 2030 or 2031.

The clients would like our advice and recommendations in relation to the above matters.

OT Accounting
26 October 2025

Continued

EXHIBIT B

RS Ltd Profit & Loss account, Balance Sheet and Corporation Tax computation to 30 June 2025

RS Ltd Profit & Loss account for the years ended 30 June 2025 and 2024

	<u>30 June</u> <u>2025</u> £	<u>30 June</u> <u>2024</u> £
Turnover	842,000	937,200
Cost of Sales	<u>(624,400)</u>	<u>(685,300)</u>
Gross Profit	217,600	251,900
Administrative Expenses	<u>(312,200)</u>	<u>(308,700)</u>
Profit before Taxation	<u>(94,600)</u>	<u>(56,800)</u>
Tax on profit	<u>(0)</u>	<u>(0)</u>
Profit/(loss) after Taxation	<u>(94,600)</u>	<u>(56,800)</u>
Average number of employees	9	11

RS Ltd Balance Sheet for the years ended 30 June 2025 and 2024

	<u>30 June</u> <u>2025</u> £	<u>30 June</u> <u>2024</u> £
Fixed Assets:		
Tangible assets	770,000	785,000
Current Assets:		
Stock	13,000	14,700
Cash at bank and in hand	<u>24,300</u>	<u>42,700</u>
	807,300	842,400
Creditors: Amounts Falling due within One Year	<u>(24,000)</u>	<u>(22,200)</u>
Net Current Assets/(liabilities)	783,300	820,200
Creditors: amounts falling due after more than one year	<u>(107,000)</u>	<u>(49,300)</u>
	<u>676,300</u>	<u>770,900</u>
Capital and Reserves		
Called Up Share Capital	10,000	10,000
Profit and Loss Account	<u>666,300</u>	<u>760,900</u>
	<u>£676,300</u>	<u>£770,900</u>

RS Ltd Corporation Tax computation for the year ended 30 June 2025

	£	£
Trading profit/(loss) per accounts		(94,600)
Add:		
Depreciation	26,644	
Entertaining	4,200	
Accrued pension contributions	<u>2,850</u>	
		<u>33,694</u>
		(60,906)
Less:		
Capital Allowances		<u>(12,400)</u>
		<u>(73,306)</u>
Trading losses:		
Trading losses brought forward		(184,400)
Trading losses in current period		<u>(73,306)</u>
Trading losses carried forward		<u>(257,706)</u>

Continuation

Capital Allowances:

	<u>Main pool</u>	<u>Claim</u>
	£	£
Tax Written Down Value b/fwd	4,200	
Additions	11,644	
Annual Investment Allowance	<u>(11,644)</u>	11,644
	4,200	
Written down allowance	<u>(756)</u>	<u>756</u>
Tax Written Down Value c.fwd	<u>3,444</u>	<u>12,400</u>

EXHIBIT C

Extract from a Valuation Report on RS Ltd

“The book value and current open market value of the assets of the company are summarised below:

	<u>Book value</u>	<u>Open Market Value</u>
	£	£
Freehold premises	565,000	710,000
Fixtures and fittings	205,000	65,300
Stock	13,000	7,400
Goodwill	0	150,000

The business premises were acquired as a derelict shell in February 2019 at a cost of £330,000. A further £235,000 was incurred on renovation and fitout cost over the following 12 months.

The premises occupy a prominent high street position with substantial footfall. It is our opinion that the current market value of the business and premises is in the region of £850,000 to £1,000,000.”

Expert Valuers Ltd
10 October 2025

EXHIBIT D

Profit and Loss forecasts for the three years to 31 March 2029

	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
	<u>2027</u>	<u>2028</u>	<u>2029</u>
	£	£	£
Turnover	620,000	989,000	1,240,400
Cost of Sales	<u>(470,400)</u>	<u>(685,200)</u>	<u>(720,220)</u>
Gross Profit	149,600	303,800	520,180
Administrative Expenses	<u>(270,200)</u>	<u>(321,600)</u>	<u>(378,300)</u>
Profit/(loss) before Taxation	<u>(120,600)</u>	<u>(17,800)</u>	<u>141,880</u>
Projected tax adjusted profits/(losses)	(174,400)	(31,350)	163,450

Note – Administrative expenses includes wages for Michael, Suvil and Jo.

Continued

EXHIBIT E

Pre-seen information

Clients

Four individuals are new clients of your firm and are planning on going into business together. They have been friends for many years but other than Michael and Suvil being married, they are otherwise unconnected.

Michael and Suvil Blatt

Michael is aged 49 and has always been UK resident and domiciled.

His wife Suvil is aged 47 and moved to the UK from India in 2001 and has been UK resident since then.

They have been married since 2004.

They have two children aged 16 and 14.

They are both successful freelance journalists in the media, leisure and hospitality industries. They each earn approximately £100,000 per annum.

They own their own home valued at £800,000 and have savings of £100,000 in ISAs.

Jo Peskal

Jo is aged 32 and has always been UK resident and domiciled.

She is single and has no children.

She has been employed as a chef for 11 years and has a salary of £30,000.

Jo lives in a small flat that she purchased outright using funds inherited from her grandparents. She has no personal savings.

Fran Bowler

Fran is aged 58 and has always been UK resident and domiciled.

She is divorced.

She has three children aged 31, 27 and 25.

She is a successful IT entrepreneur and has recently sold her company realising a capital gain of £2.5 million, on which she claimed £1 million of Business Asset Disposal Relief.

She owns her own home valued at £1.8 million and has £4 million in cash and investments, which includes the proceeds of the sale of her company.

She has an annual income of £200,000.