THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Owner-Managed Businesses

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 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.
- Additional marks may be awarded for presentation.
- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Greenfingers LLP has operated as a landscape gardening business for several years. The members of Greenfingers LLP are Hashan, Millie and Sandstone Ltd.

Sandstone Ltd provided all of the £150,000 initial capital for Greenfingers LLP and receives interest on capital of 10% per annum. The remaining profits and losses are allocated between Sandstone Ltd, Hashan and Millie in the ratio 20:40:40 respectively.

Greenfingers LLP has always prepared accounts to 31 March each year. Sandstone Ltd has always prepared accounts to 31 December each year.

Greenfingers LLP's Profit and Loss Account for the year ended 31 March 2025 is as follows:

	Notes	£
Turnover		645,000
Cost of sales	1)	(375,000)
Gross profit		270,000
Staff and subcontractor costs	2)	(80,900)
Interest payable	3)	(27,600)
Premises costs	4)	(43,750)
Depreciation	5)	(22,000)
Office and administration costs		(24,750)
Sundry costs		(9,500)
Net profit		61,500

Notes

1) Cost of sales includes a new digger which was purchased on 14 May 2024 for £45,000 and the purchase of a shed on 18 August 2024 for £1,750 which is used for storage. The shed is located at Hashan's private residence.

2) Staff wages and subcontractor costs include employee bonuses of £15,000 which were paid on 25 July 2025 and employee pension contributions of £2,000 which were paid on 14 April 2025.

   In the year ended 31 March 2024, pension contributions of £1,500 were accrued for, but not paid until 10 April 2024.

3) Interest payable includes £15,000 of interest paid to Sandstone Ltd on its initial start-up capital.

4) Premises costs relate to a workshop which is rented by Greenfingers LLP. Hashan uses 10% of this workshop to store his personal possessions.

5) Depreciation includes £5,000 of amortisation in respect of bespoke software which was purchased on 1 July 2024 for £15,000.

6) The tax written down value brought forward on the main pool at 1 April 2024 was £10,280 for both Income Tax and Corporation Tax purposes.

The total taxable profits for Sandstone Ltd for the year ended 31 December 2024 were £140,000, before accounting for the interest on initial capital and any allocation of partnership profits.

Sandstone Ltd's share of Greenfingers LLP's taxable profits for the year ended 31 March 2024 was £72,000. Sandstone Ltd has no associated companies and received no dividend income in the year ended 31 December 2024.

Requirement:

1) Calculate, with explanations, the tax adjusted profits allocated to each partner for the year ended 31 March 2025. (16)

2) Calculate the Corporation Tax liability for Sandstone Ltd for the accounting period ended 31 December 2024 and state the date this is payable. (4)

Total (20)

2. John is a director and 100% shareholder of John's Joinery Ltd, which makes up its accounts to 31 March each year.

John's Joinery Ltd has 100 £1 ordinary shares in issue. John inherited these shares on the death of his father in July 2003, when they were worth £175,000 in total. John's father had initially subscribed for the shares on the formation of the company, for £100.

John will retire and sell the business on 31 March 2026 to a local competitor. Either:

1) John will sell all of his shares to the purchaser for cash consideration equal to the company's market value; or

2) John's Joinery Ltd will sell its trade and assets (excluding trade debtors and cash) at their market value for cash consideration. Once the trade debtors have been collected, John's Joinery Ltd will then be wound up and the funds distributed to John as soon as is practical thereafter.

The estimated Balance Sheet (net book) value, market value and original cost of the assets and liabilities of John's Joinery Ltd at 31 March 2026 is as follows:

	Notes	Net book value	Market value	Original cost
		£	£	£
Goodwill		Nil	700,000	Nil
Freehold property	1)	600,000	800,000	450,000
Plant and machinery	2) and 3)	60,000	50,000	120,000
Stock		80,000	80,000	80,000
Trade debtors		25,000	25,000	
Cash		120,000	120,000	
Trade creditors		(45,000)	(45,000)	
Total		£840,000	£1,730,000	

Notes

1) The freehold property is used entirely for the purposes of the trade and was acquired in 1996, when the business commenced.

2) The plant and machinery comprises many small items of equipment, each with an individual value of less than both £6,000 and their original cost. The company did not claim the super-deduction on any of these items.

3) Laptops costing £6,000 were acquired on 17 July 2025. Office equipment, which originally cost £10,000, was disposed of on 31 August 2025 for £3,500. No further additions or disposals of plant and machinery will take place in the year ended 31 March 2026.

The above figures do not include any Corporation Tax liability for the year ended 31 March 2026, nor in respect of the potential sale.

For the year ended 31 March 2026, total taxable profits before capital allowances are estimated to be £165,250. John's Joinery Ltd has no associated companies.

The tax written down values on the main and special rate pools at 1 April 2025 were £45,000 and £12,500 respectively.

Assume the indexation allowance, where relevant, is 50% of cost.

John will make no other disposals in 2025/26 and has not previously disposed of business assets.

Ignore any liquidation fees that may be payable on the winding up of John's Joinery Ltd.

Requirement:

Calculate, with explanations, which of the two options for the sale of the business results in the largest amount of net proceeds being received by John. (20)

3. Kay has been a sole trader since 1 April 2022. She prepares accounts to 31 March each year and uses the accruals basis and is not a Scottish taxpayer.

Kay completed her 2022/23 tax return and computation herself, despite having limited tax knowledge. This included taxable trading profits of £69,475, which was her only income in 2022/23.

Her travel expenses were as follows:

	Notes	£
Car expenses and fuel – Kay	1)	6,750
Car expenses and fuel – Ruth	2)	4,300
Hotels and subsistence	3)	2,750
		13,800

Notes

1) Kay used this car (CO_2 emissions 50g/km – petrol) for business journeys for an average of 75% of each week.

2) Ruth joined the business as an employee on 1 January 2023. She used this car (CO_2 emissions 80g/km – petrol) for business journeys for an average of 80% of each week. No account has been taken of any private use.

3) This is meals and overnight hotel stays when visiting client sites.

All of these amounts were treated as fully tax deductible by Kay.

In addition, Kay spent £1,500 on evening meals for herself whilst staying overnight on client visits, which was not included in the profit and loss account.

Kay's capital allowances were calculated as follows:

		AIA £	Main pool £	Allowances £
TWDV b/f			-	-
Additions:				
Car – Kay	1 May 2022		35,000	
Office equipment	1 June 2022	6,500		
Car – Ruth	1 January 2023	-	22,500	
		6,500	57,500	
Annual Investment Allowance		(6,500)		6,500
WDA at 18%		-	(10,350)	10,350
TWDV c/f		-	47,150	
Total allowances claimed				16,850

Both cars were acquired new, at the manufacturer's published price.

Kay also paid a salary of £625 per month to her son (aged five).

Requirement:

1) **Explain any errors made in Kay's 2022/23 tax return and calculate the total amount of Income Tax and Class 4 National Insurance underpaid as a result.** (10)

2) **Explain how these errors could be corrected and the penalties which may apply.** (5)

Total (15)

4. Farid is a self-employed graphic designer who prepares accounts to 31 March each year. To date, he has used the accruals basis of accounting but is considering switching to the cash basis. Farid is not a Scottish taxpayer.

His draft profit and loss account prepared on the accruals basis for the year ended 31 March 2025 is as follows:

	Notes	£
Sales	1)	55,000
Business insurance	2)	(1,525)
Bank overdraft interest	3)	(750)
Other expenditure	4)	(11,000)
Net profit		41,725

Notes

1) All work invoiced in the year ended 31 March 2025 was delivered during that year. Of the £55,000 invoiced, Farid had received payments of £48,000 by 31 March 2025.

2) Comprises £1,125 of prepaid costs paid in the prior year, and £400 of a total payment of £1,600 made in respect of the period 1 January 2025 to 31 December 2025.

3) Paid in respect of the year to 31 March 2025.

4) Farid bought a second-hand van on 1 June 2024 for £11,000.

Farid has made two payments on account of £3,000 each to HMRC in respect of his 2024/25 tax liability.

In respect of the year ended 31 March 2024:

1) Farid entered into an agreement with a customer to provide 10 printed artworks for £500 each. He invoiced his customer for the full £5,000 upfront and received full payment during the year. However, Farid had only delivered two of the artworks by 31 March 2024. He declared £1,000 as income in his accounts in the year ended 31 March 2024. The remaining artworks were delivered to the customer in the year ended 31 March 2025.

2) Farid paid £1,500 for business insurance to cover the period 1 January 2024 to 31 December 2024. An expense of £375 was included in his accounts for the year ended 31 March 2024.

3) On 1 October 2023, a specialist computer was acquired on hire purchase, with 24 monthly capital instalments of £375 to be paid. Farid claimed the annual investment allowance on the full £9,000. As at 31 March 2024, 18 instalments were left to pay.

4) The tax written down value of the main pool at 31 March 2024 was £8,000. The expenditure within this pool is all eligible for relief under the cash basis.

Requirement:

1) Calculate Farid's taxable trading profits for the year ended 31 March 2025 under both the cash basis and accruals basis and identify which was best for him to use in 2024/25.

(10)

2) Calculate Farid's Income Tax and National Insurance payments due on 31 January 2026 and 31 July 2026 using the basis identified in Requirement 1). (5)

Total (15)

5. Frankscape Ltd has operated in the food production industry for many years. The company draws its accounts up to 28 February each year.

The company's shareholders are as follows:

	Job title (if applicable)	Number of shares
Max Smythe	Managing director	1,200
John Wallace	Production director	1,000
Jenny Smith		1,000
Martha Bubb	Finance director	750
Fiona Maxwell		750
Karen Harding	Chair and director	700
Sarah Jamieson	Marketing director	650
Sarah Gregg	Commercial director	600
Phil Harper	Senior manager	550
Paul Smythe		200
Hapthur Innovations Ltd		500
Other small investors (< 100 shares each)		2,100
Total		10,000

Notes

1) The company's shares are a single class of ordinary shares and carry an equal right to votes, to the company's distributable profits and to assets on a winding up.

2) Jenny Smith has lived with Max Smythe for many years. Jenny and Max are not married nor in a civil partnership. Paul Smythe is Max Smythe's son.

3) Phil Harper is not a director of the company but attends all strategic meetings and plays an active role in many of the key decisions. Phil receives a salary of £60,000 from Frankscape Ltd and is a higher rate taxpayer.

   On 1 May 2020, Frankscape Ltd lent Phil Harper £42,000 at an interest rate of 1%. The loan has remained at this level since then but will be waived on either 28 February 2026 or 31 March 2026.

4) Hapthur Innovations Ltd is an unconnected company.

5) On 31 December 2023, Frankscape Ltd lent Fiona Maxwell £100,000, charging interest at HMRC's official rate. Fiona repaid £40,000 of this loan on 15 November 2024, using her own funds. The company lent her a further £30,000 on 6 December 2024. Fiona intends to repay both loans in full in the next few years.

6) The company does not pay Corporation Tax by instalments.

Requirement:

1) Explain whether Frankscape Ltd is a close company. (5)

2) Explain the tax implications of the loans made to Phil and Fiona, including their anticipated future repayment/waiver. (15)

Total (20)

6. Steve operated as a self-employed builder for many years, preparing accounts to 5 April each year under the accruals basis.

On 5 April 2024, Steve retired and his final accounts up to the cessation of trade showed a taxable profit of £30,000. He had no other income in the 2023/24 tax year.

During the year ended 5 April 2024, Steve invoiced £10,000 for some building works but his client did not pay the invoice. In his final accounting period to 5 April 2024, this invoice had been written off as a bad debt. The client eventually paid this invoice on 25 January 2025.

Steve incurred the following costs relating to his previous trade in the year to 5 April 2025:

	Notes	£
Debt collection fees	1)	1,000
Legal fees	2)	21,000
Physiotherapy	3)	750

Notes

1) A debt collecting agency was paid to assist with recovering the £10,000 bad debt.

2) Legal fees were paid to defend a claim for faulty workmanship for work carried out in 2021.

3) Physiotherapy was in respect of a long standing back problem which Steve claims is a direct result of working on a building site for many years.

Steve's only other income in 2024/25 was a private pension of £3,000. He also received £15,000 of proceeds from the sale of some share investments, which were originally acquired for £10,750.

Requirement:

Explain the tax treatment of Steve's post cessation transactions. You are not required to consider National Insurance Contributions. (10)