

Tolley® Exam Training

CTA ADVANCED TECHNICAL PAPER

OWNER MANAGED BUSINESSES (OMB)

PRE REVISION QUESTION BANK

FA 2024 & F(No. 2)A 2024

May and November 2025 Sitzings

PQ822

Tolley®

Tax intelligence
from LexisNexis®

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INTRODUCTION

This Advanced Technical Pre Revision Question Bank contains 17 exam standard questions all with answers updated to Finance Act 2024 and Finance (No 2) Act 2024. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2025** and your own personalised version of the approved online legislation.

Using this question bank

All the CTA Advanced Technical exams are **3.5 hours** in length.

We suggest you **allocate 2 minutes per mark** which allows for 10 minutes initial reading time.

10 mark question = 20 minutes

15 mark question = 30 minutes

20 mark question = 40 minutes

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read the answer saying “yes I know that point, yes I understand that advice given” - the test is would you have actually put those points in your answer? You won’t find this out unless you **type up the answers and we recommend you do this using the on-screen version of this QB**. Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to produce.

Preparing your answers

Questions set on the Advanced Technical papers **do not require a specific format** of answer - all questions will require a direct answer (rather than a letter to a client or an email to the tax partner). Requirements will start with words like “Explain”, “Discuss”, “Compare” and “Calculate”.

There may be scenarios where there is no single correct answer or where the answer is not definitive. You will be expected to **make recommendations** as to actions which should be taken by the subject of the question.

You are expected to produce **full and reasoned answers** sufficient to demonstrate your knowledge and application in order to gain the available marks. **Brief bullet points are unlikely to be sufficient.**

Key **presentation considerations** include spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

The CIOT do not award “presentation and higher skills” (PHS) marks on individual questions nor will they form part of the 100 marks available on a paper. Instead, when they carry out their normal review of a script that is just below a pass, **up to two bonus PHS marks per paper** can be awarded which could therefore boost a candidate from a fail to a pass.

When awarding these bonus marks, the CIOT have stated they will consider:

- The accuracy of spelling and grammar.
- Whether full sentences have been used where appropriate (in some cases appropriately detailed lists may be appropriate, for example setting out the conditions for a relief to apply).
- Whether answers flow well and are presented in a logical order.
- Whether conclusions have been reached where it is appropriate to expect a conclusion.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – **before** you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? A good question to ask yourself is would the reader pay money for your advice? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading through your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

In the advanced technical papers, it is quite likely that there is no single right answer. The model answer is only one possible solution. You may well have included valid points which are not included in the model answer. Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out?

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INCOME TAX - RATES AND THRESHOLDS

	2024/25	2023/24
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701 – 125,140
Dividend allowance	500	1,000
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Standard rate band for trusts	N/A	1,000
Scottish Tax Rates⁽¹⁾	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	N/A
Top rate	48	47
Scottish Tax Thresholds⁽¹⁾	£	£
Starter rate	1 – 2,306	1 – 2,162
Scottish basic rate	2,307 – 13,991	2,163 – 13,118
Intermediate rate	13,992 – 31,092	13,119 – 31,092
Higher rate	31,093 – 62,430	31,093 – 125,140
Advanced rate	62,431 – 125,140	N/A
Top rate	125,140+	125,140+

INCOME TAX - RELIEFS

	2024/25	2023/24
	£	£
Personal allowance ⁽²⁾	12,570	12,570
Married couple's allowance ⁽³⁾	11,080	10,375
– Maximum income before abatement of relief - £1 for £2	37,000	34,600
– Minimum allowance	4,280	4,010
Transferable Tax allowance for married couples and civil partners ⁽⁴⁾	1,260	1,260
Blind person's allowance	3,070	2,870
Enterprise investment scheme relief limit ⁽⁵⁾	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	200,000
De minimis trusts amount	500	N/A

- Notes:** (1) Scottish taxpayers pay Scottish income tax on non-savings income.
- (2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge intensive companies.

CTA EXAMINATIONS

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ISA limits	2024/25	2023/24
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions	Annual allowance ⁽¹⁾	Minimum pension age
	£	
2023/24	60,000	55
2024/25	60,000	55

Basic amount qualifying for tax relief £3,600

Lump sum allowance £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

Employer Supported Childcare	2024/25	2023/24
Exemption – basic rate taxpayer ⁽²⁾	£55 per week	£55 per week

Note: (2) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

ITEPA mileage rates

Car or van ⁽³⁾	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (3) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2024/25

Emissions	Electric range (miles)	Car benefit % ⁽⁴⁾	
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (4) 4% supplement for diesel cars excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure	2024/25	2023/24
	£	£
	27,800	27,800

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Van benefits	2024/25	2023/24
	£	£
No CO ₂ emissions	Nil	Nil
CO ₂ emissions > 0g/km	3,960	3,960
Fuel benefit for vans	757	757
Official rate of interest	2.25%	2.25%

INCOME TAX - CHARGES

Child benefit charge	Withdrawal rate
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) ⁽¹⁾	100%
WDA on plant and machinery in main pool ⁽²⁾	18%
WDA on plant and machinery in special rate pool ⁽³⁾	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) ⁽⁴⁾	3%

- Notes:** (1) On first £1,000,000 of investment in plant & machinery (not cars).
 (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
 (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).
 (4) A 10% rate applies in respect of special tax site expenditure.

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.

New zero-emission goods vehicles (until 1 or 6 April 2025).

New cars that either emit 0g/km of CO₂ (50g/km prior to April 2021) or are electric (until 1 April 2025).

Electric vehicle charging points (until 1 or 6 April 2025).

First year allowances (FYA) available to companies only

	Main pool assets	Special rate pool assets
Expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards ⁽⁵⁾	100%	50%
Expenditure on new plant and machinery (other than cars) in a special tax site	100%	100%

- Notes:** (5) 130% for main pool expenditure and 50% for special rate pool expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2024/25	2023/24
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses		
Cars or vans	First 10,000 business miles	45p per mile
	Additional business miles	25p per mile
Motorcycles		24p per mile
Business use of home	25 – 50 hours use	£10 per month
	51 – 100 hours use	£18 per month
	101+ hours use	£26 per month
Private use of business premises	No of persons living there:	
	1	£350 per month
	2	£500 per month
	3+	£650 per month

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	2024/25			2023/24		
	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Lower earnings limit (LEL)	£6,396	£533	£123	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£9,100	£758	£175	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Special tax sites upper secondary threshold	£25,000	£2,083	£481	£25,000	£2,083	£481

Class 1 primary contribution rates

Earnings between PT and UEL

8%

12%

Earnings above UEL

2%

2%

Class 1 secondary contribution rates

Earnings above ST ⁽¹⁾

13.8%

13.8%

Note: (1) Rate of secondary NICs between the ST and the UST, AUST & special tax sites upper secondary threshold is 0%.

	2024/25	2023/24
Employment allowance		
Per year, per employer	£5,000	£5,000
Class 1A contributions	13.8%	13.8%
Class 1B contributions	13.8%	13.8%
Class 2 contributions		
Rate	£3.45 pw	£3.45 pw
Small profits threshold (SPL) ⁽²⁾	£6,725	£6,725
Lower profits limit (LPL)	N/A	£12,570

Note: (2) From 2024/25, self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions	£17.45 pw	£17.45 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£12,570	£12,570
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	6%	9%
Percentage rate above UPL	2%	2%

OTHER PAYROLL INFORMATION

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £184.03 and 90% of AWE
Statutory shared parental pay /paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £184.03
Statutory sick pay	£116.75 per week

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Student Loan	Plan 1:	9% of earnings exceeding £24,990 per year (£2,082.50 per month/ £480.57 per week)
	Plan 2:	9% of earnings exceeding £27,295 per year (£2,274.58 per month /£524.90 per week)
	Plan 4:	9% of earnings exceeding £31,395 per year (£2,616.25 per month /£603.75 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2024 onwards)

Category of Worker	Rate per hour £	Category of Worker	Rate per hour £
Workers aged 21 and over	11.44	16–17 year olds	6.40
18–20 year olds	8.60	Apprentices	6.40

Accommodation Offset £9.99 per day

HMRC INTEREST RATES (assumed)

Late payment interest	7.75%
Interest on underpaid corporation tax instalments	6.25%
Repayment interest	4.25%
Interest on overpaid corporation tax instalments	5.00%

CAPITAL GAINS TAX

	2024/25	2023/24
Annual exempt amount for individuals	£3,000	£6,000

CGT rates for individuals, trusts and estates

Gains qualifying for business asset disposal ⁽¹⁾ /investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band ⁽²⁾	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates ⁽³⁾	20%	20%

- Notes:** (1) Formerly called entrepreneurs' relief
 (2) The rate is 18% if the gain is in respect of a residential property
 (3) The rate is 24% (28% in 2023/24) if the gain is in respect of a residential property

Business Asset Disposal relief	2024/25	2023/24
Relevant gains (lifetime maximum) ⁽⁴⁾	£1 million	£1 million

Investors' relief		
Relevant gains (lifetime maximum)	£10 million	£10 million

Note: (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage	Years	Percentage
50+	100.000	37	93.497	24	79.622	11	50.038
49	99.657	36	92.761	23	78.055	10	46.695
48	99.289	35	91.981	22	76.399	9	43.154
47	98.902	34	91.156	21	74.635	8	39.399
46	98.490	33	90.280	20	72.770	7	35.414
45	98.059	32	89.354	19	70.791	6	31.195
44	97.595	31	88.371	18	68.697	5	26.722
43	97.107	30	87.330	17	66.470	4	21.983
42	96.593	29	86.226	16	64.116	3	16.959
41	96.041	28	85.053	15	61.617	2	11.629
40	95.457	27	83.816	14	58.971	1	5.983
39	94.842	26	82.496	13	56.167	0	0.000
38	94.189	25	81.100	12	53.191		

CTA EXAMINATIONS

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Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	—	—	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

CORPORATION TAX

Financial year	2024	2023
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small ⁽²⁾	Medium ⁽²⁾	Extended definition for R&D expenditure
Employees ⁽¹⁾	< 50	< 250	<500
Turnover ⁽¹⁾	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets ⁽¹⁾	≤ €10m	≤ €43m	≤ €86m

Notes: (1) Must meet employees criteria and either turnover or balance sheet assets criteria.

(2) Thresholds apply for transfer pricing and distributions received by small companies.

Research and development expenditure

Financial year	2023
Total relief for Small & medium enterprises (SMEs)	186%
R&D tax credit for SME losses	10%
Large companies – RDEC	20%
Financial year	2024
Enhanced R&D Intensive Support (ERIS) - total relief for loss making R&D intensive SMEs	186%
R&D tax credit for R&D intensive SME losses	14.5%
RDEC (merged scheme RDEC) ⁽¹⁾	20%

Note: (1) From 1 April 2024 the merged scheme RDEC is available to all companies.

VALUE ADDED TAX

	Standard rate	VAT fraction
Rate	20%	1/6
Limits	2024/25	2023/24
	£	£
Annual registration limit	90,000	85,000
De-registration limit	88,000	83,000
Thresholds	Cash accounting	Annual accounting
	£	£
Turnover threshold to join scheme	1,350,000	1,350,000
Turnover threshold to leave scheme	1,600,000	1,600,000

ADVISORY FUEL RATES (as at 1 March 2024)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	14p
Over 2000cc	24p	21p	Over 2000cc	19p

Electricity rate 9p

OTHER INDIRECT TAXES

	2024/25	2023/24
Insurance premium tax⁽²⁾		
Standard rate	12%	12%
Higher rate	20%	20%

Notes: (2) Premium is tax inclusive (³/₂₈ for 12% rate and ¹/₆ for 20% rate).

Landfill Tax (pro rated for part tonnes)

Standard rate	£103.70 per tonne	£102.10 per tonne
Lower rate	£3.30 per tonne	£3.25 per tonne

Landfill Communities Fund (LCF) ⁽³⁾	5.3% x landfill tax liability	5.3% x landfill tax liability
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Notes: (3) Relief for 90% of qualifying contributions

Aggregates Levy (pro rated for part tonnes)	£2.03 per tonne	£2 per tonne
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Plastic Packaging Tax (PPT) (pro rated for part tonnes)	£217.85 per tonne	£210.82 per tonne
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CTA EXAMINATIONS

2025

TAX TABLES



Climate Change Levy (CCL)⁽¹⁾

Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.672p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	5.258p per kg

Carbon Price Support (CPS) rates

Natural gas	0.331 per kwh	0.331 per kwh
LPG	5.28p per kg	5.28p per kg
Coal & other taxable solid fossil fuels	£1.5479 per GJ on GCV	£1.5479 per GJ on GCV

Tobacco products duty

	From 22.11.2023	From 15.03.2023
Cigarettes	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes ⁽²⁾)	16.5% x retail price + £294.72 per thousand cigarettes (or £393.45 per thousand cigarettes ⁽²⁾)
Cigars	£395.03 per kg	£367.61 per kg
Hand-rolling tobacco	£412.32 per kg	£351.03 per kg
Other smoking/chewing tobacco	£173.68 per kg	£161.62 per kg
Tobacco for heating	£325.53 per kg	£302.93 per kg

Alcohol Duty⁽³⁾

From 1 August 2023 to 1 February 2025

	Duty in £ for each litre of pure alcohol in the product		Duty in £ for each litre of pure alcohol in the product
Beer (ABV)		Spirits/Spirit based products (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	21.01	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Cider (not sparkling) (ABV)		Wine/sparkling wine (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	9.67	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Sparkling cider (ABV)		Other fermented products like fruit ciders (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 5.5%	9.67	3.5% to 8.4%	24.77
5.6% to 8.4%	24.77	8.5% to 22%	28.50
8.5% to 22%	28.50	Stronger than 22%	31.64
Stronger than 22%	31.64		

- Notes:** (1) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2024/25 (2023/24 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (12%), for LPG it is 23% (23%) and 11% (12%) for any other taxable commodity
- (2) The £422.80/£393.45 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)
- (3) There are reduced rates for qualifying draught products

INHERITANCE TAX

Death rate	40% ⁽³⁾	Lifetime rate	20%
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Note: (3) 36% rate if 10% or more of the deceased person's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands⁽⁴⁾

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (4) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick Succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption		£3,000
Small gifts		£250
Wedding gifts	Child	£5,000
	Grandchild or remoter issue or other party to marriage	£2,500
	Other	£1,000

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	From 1.4.24	From 1.4.23
>£0.5m – ≤ 1m	£4,400	£4,150
> £1m – ≤ 2m	£9,000	£8,450
> £2m – ≤ 5m	£30,550	£28,650
> £5m – ≤ 10m	£71,500	£67,050
> £10m – ≤ 20m	£143,550	£134,550
> £20m	£287,500	£269,450

STAMP DUTY/SDRT

Stamp duty⁽¹⁾	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax (SDRT)⁽²⁾	- On agreements to transfer shares ⁽²⁾	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).

(2) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

STAMP DUTY LAND TAX (SDLT)

Qualifying purchases in a Freeport receive full SDLT relief

Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

Basic Rate % ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Residential ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Rate %	Non-Residential
0	£0 - £250,000	0	£0 - £150,000
5	£250,001 - £925,000	2	£150,001 - £250,000
10	£925,001 - £1,500,000	5	£250,001 +
12	£1,500,001 +		

- Notes:** (3) The basic rates are increased by 3% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 3% on all purchases of residential properties, subject to Note 4 below.
- (4) Companies (and certain other entities) pay 15% on purchases of residential property valued > £500,000 (subject to exceptions).
- (5) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will not be due on properties up to £425,000. For homes between £425,000 and £625,000, SDLT will be payable at 5% on the amount above the £425,000 threshold. Homes bought for more than £625,000 will incur the rates as per column 1 in above table.
- (6) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 3), and the 15% rate (where applicable, in Note 4).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	Non-residential
0	Up to £250,000	Up to £150,000
1	Excess over £250,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

Basic Rate % ⁽¹⁾⁽²⁾⁽³⁾	Residential	Rate % ⁽¹⁾	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

- Notes:** (1) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.
- (2) The 'Additional Dwelling Supplement' of 6% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.
- (3) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent ⁽⁴⁾	
	Non-residential	
Zero	Up to £150,000	
1%	£150,001 to £2,000,000	
2%	£2,000,001 +	

- Note:** (4) Residential leases are generally exempt

QUESTIONS

1. For many years the Blue and White partnership comprised Mr Ward (currently aged 69) and Mr Mellor (currently aged 37) who shared profits and losses in the ratio 3:2 (Ward:Mellor).

On 1 November 2023 Mr Horton (currently aged 33) was admitted as a partner, from which date profits and losses have been shared 5:4:1 (Ward:Mellor:Horton). Prior to his admittance as a partner, Mr Horton was employed as a manager by the partnership, at an annual salary of £60,000, payable on the last day of each month.

A car, which was used partly for the purposes of the business, was purchased personally on 1 April 2024 by Mr Mellor for £34,734. The car has CO₂ emissions of 170 g/km and it is estimated that there will be 50% business use.

Taxable results (before capital allowances in respect of the above car) are as follows:

	£	
Year to 31 March 2024	(90,000)	loss
Year to 31 March 2025	170,000	profit

None of the partners receive income or gains from any other sources.

Requirement:

- 1) Calculate the Income Tax and National Insurance liabilities of all three partners for 2023/24 and 2024/25 on the assumption that relief for losses is claimed against taxable income of these two years only. You should clearly identify any unused losses; and (10)
 - 2) Explain and give details of any alternative methods of loss relief for each individual partner, specifying any relevant time limits or possible restrictions. (5)
- Total (15)

2. High Cross Motor Services operates as a partnership and has traded for many years. The business comprises a petrol station, car service workshop and convenience store. The partners, Alex and Nick, work full-time in the business.

A new local by-pass was opened in March 2024 and this has resulted in a significant decline in fuel and retail sales. Alex and Nick are qualified mechanics and have decided to close the fuel station and convenience store to concentrate their efforts on vehicle servicing and repairs. The fuel and retail operations will close in September 2025, after which the partners will consider whether to let the retail outlet.

David joined the partnership on 1 October 2024 and made a capital contribution of £20,000. David is an experienced panel beater and was previously employed by a local competitor. However, due to family commitments, he did not work actively in the High Cross Motor Services partnership during the accounting period ending 31 March 2025.

The partnership draws up its accounts to 31 March. For the year ended 31 March 2025 the partners participate in income profits and losses in the following ratios:

	<u>Six months to 30 September 2024</u>	<u>Six months to 31 March 2025</u>
Alex	50%	40%
Nick	50%	40%
David	0%	20%

The partnership accounts for the year to 31 March 2025 show the following:

Trading loss per accounts £(272,000)

An election has been made for the accruals basis. The loss is stated after charging the following expenses:

	£
Depreciation – tangible owned assets	12,000
Bank charge	3,000

The bank charge of £3,000 arose on the re-negotiation of a new long-term loan, following the admission of the new partner.

In view of the tax losses, the partners have agreed that no capital allowances will be claimed for the year ended 31 March 2025.

The partners have the following adjusted total income and capital gains in 2024/25 before relief for trade losses:

	<u>Adjusted total income</u>	<u>Chargeable gains</u>
	£	£
Alex	15,000	Nil
Nick	55,000	100,000
David	40,000	Nil

The tax adjusted trading profit of High Cross Motor Services for 2023/24 was £120,000 and allocated as follows:

	<u>Adjusted trading profits 2023/24</u>
	£
Alex	60,000
Nick	60,000

The partners had no other sources of taxable income or gains in 2023/24. David has no available taxable income or gains in the three tax years prior to 2024/25 due to making additional pension contributions and using tax losses arising from another business.

Requirement:

- 1) Calculate the adjusted partnership trading loss for the year ended 31 March 2025 and allocate the tax loss between the partners for 2024/25 and explain the tax treatment of the bank charge. (5)
 - 2) Explain with calculations how the losses of each partner may be relieved on the assumption that they wish to obtain relief at the earliest opportunity. (15)
- Total (20)

You are NOT required to calculate the tax liabilities.

3. Topaz Ltd manufactures widgets. During its year ended 31 March 2025, it incurred the following capital expenditure:
- A deposit of £20,000 was paid on 10 December 2024 for a grinding machine under a contract whereby title to the machine would pass on delivery when the balance of the purchase price was due. Before delivery, the supplier went into liquidation and the deposit was lost.
 - A rolling machine was purchased on deferred payment terms and was delivered on 28 February 2025. Three payments of £35,000 each were paid/fall due on 28 February 2025, 30 May 2025 and 30 August 2025.
 - A crane was bought on a hire-purchase contract. The crane was delivered on 21 January 2025 but was not brought into use until 2 May 2025. Under the hire purchase contract, 24 payments of £6,250 are due, payable on the first day of each month from 1 February 2025. £1,250 of each instalment relates to finance charges.
 - Computer equipment costing £20,000 was delivered on 25 March 2025. An invoice for it was issued on 2 April 2025 and stated as payable within 30 days. Payment was made on 1 May 2025.
 - A deposit of £50,000 was paid on 1 January 2025 under a contract for the supply of a polishing machine costing £200,000 in total. At 31 March 2025 the machine was under construction to the company's specification at the manufacturer's plant in Germany and was 90% complete. The machine was delivered on 16 May 2025 on which date the balance of the purchase price became payable.
 - A fixture within s.173(1) CAA 2001 was installed at Topaz's freehold factory, at a cost of £450,000 under a 'milestone' contract where payment is due monthly based on progress of the work as certified by the project engineer. Payment is due within 30 days of certification.

<u>Amount</u> £	<u>Date certified</u>	<u>Payment due</u>	<u>Description</u>
30,000	15 December 2024	14 January 2025	Preliminaries
50,000	15 January 2025	14 February 2025	Base construction
40,000	15 February 2025	17 March 2025	Electrical installation
100,000	15 March 2025	14 April 2025	Assembly
230,000	15 April 2025	15 May 2025	Assembly

Requirement:

Explain the quantum and timing of expenditure for capital allowance purposes and/or relief as revenue expenditure.

You should include details of the amounts of allowable revenue and capital expenditure for the accounting periods ended 31 March 2025 and 31 March 2026.

(15)

4. Greg Leghorn and his twin brother Chris are Oxbridge physics graduates who have developed a new product called the “Eggs Box”. The “Eggs Box” is a small cube shaped machine which uses “vortex-steam technology to boil or poach eggs to perfection in 3 to 4 minutes without the need for a saucepan”.

Patent has been received and the brothers are preparing to launch their product to market. The product has been developed from the workshop in Greg’s garden but any large scale production will be outsourced to China.

With trade about to commence, Greg and Chris have concerns about their choice of business medium. Their initial thoughts were to trade via a 3-man partnership with their father, Lionel, taking a 10% share in return for a capital investment of £100,000 and a part-time consultancy role. Lionel is a retired marketing executive and will work on average 1 day a week. Profits and losses will therefore be split 60% to Greg and 30% to Chris. Chris will continue to work part-time in his father-in-law’s frozen foods company but will work 25 hours a week for “Eggs Box”. Greg is single and has no other employment so he can devote the most time to the business.

The alternative is a limited company with shares being allocated in the same ratio between the 3 parties and Lionel taking a non-executive director role.

Greg and Chris have also heard of limited liability partnerships but are unsure what these are or do.

The business is not forecast to make a profit for at least 3 years due to high development costs, the search for market share, capital allowances and interest charges on bank borrowings.

Given that trading losses are expected for the first three years, Greg and Chris would like to know how relief can be obtained for the trading losses whichever business vehicle is chosen. Greg currently has around £5,000 pa of investment income. He gave up a well-paid job in March 2024 to focus on product development for the Eggs Box. Chris still earns £35,000 per annum from his other job. Lionel is independently wealthy and is a 45% taxpayer. None of them have any chargeable gains.

Trade will commence on 1 July 2025 with the first accounts to be prepared to 31 March 2026 and annually thereafter.

Requirement:

Discuss the various options for Greg, Chris and Lionel for relieving the trading losses from their business under each choice of business entity. Include an explanation of the features of an LLP and how they are taxed. (20)

5. LM Ltd is a company specialising in the development of medical equipment.

The company employs 100 people and had a turnover for the year ended 31 March 2025 of £10 million, increased from £8 million for the year ended 31 March 2024.

Development of one of the company's recent products included advancements in technology which meets the definition for expenditure on Research & Development (R&D).

The company's Finance Director has provided the following information in relation to the project costs that have arisen through the development period which started on 1 June 2024 and ended with the completion of the prototype product on 31 January 2025.

<u>Staff member</u>	<u>Project role</u>	<u>Salary (incl. Employer's National Insurance)</u>	<u>Company pension contribution</u>	<u>Private medical benefit</u>
		£	£	£
Alan Hart	Product development	28,000	2,000	1,800
Janice Stanley	Product development	25,000	0	1,000
Rachel Jones	Market research	20,000	0	1,000
Harry Marshall	Production Director	<u>30,000</u>	<u>0</u>	<u>0</u>
		103,000	2,000	3,800

The salary and benefit costs were incurred during the development period.

Except for Harry Marshall, who spent one sixth of his time on the new product development, all individuals worked full time on the project.

On 31 January 2025 the company made a statutory redundancy payment of £2,200 to Janice Stanley on the completion of the project.

Over the period of the project LM Ltd also paid Test Cage Ltd, an unconnected company, £50,000 to provide testing of the prototype. You have established that the expenditure incurred by Test Cage Ltd on the project amounted to £42,000 and all the R&D activity has been carried out in the UK.

Other related revenue expenditure incurred throughout the product development, was:

	£
Telephone	500
Rent	1,000
Water, fuel and power	750

In June and July 2024, LM Ltd incurred capital expenditure of £60,000 in total on the construction of a new R&D workshop.

The company's taxable trade profit before any relief for the above expenditure is £525,000. It has no other income.

Requirement:

- 1) Explain how much of the above expenditure will qualify for R&D relief and calculate the Corporation Tax liability for the year ended 31 March 2025 (assuming a claim for relief is made). (12)
- 2) Explain how the position would be different if:
 - a) LM Ltd had made a loss of £500,000 before taking into account the above expenditure.
 - b) LM had made such a loss in the period and qualifying research and development expenditure in the accounting period had amounted to 40% of total expenditure in the accounts.

Calculations are NOT required (8)

Total (20)

6. Plex Ltd is a successful sports equipment retailer.

Plex Ltd is in the process of engaging three IT consultants in order to overhaul the company's on-line retail presence. The consultants are all UK resident and currently operate as self-employed individuals. The project is likely to take between 9 and 12 months and both Plex Ltd and the consultants would prefer the engagement to be one of self-employment. The negotiations are at an early stage and Plex Ltd would like to know how the engagement can be structured in a manner that will support self-employed status.

Requirement:

Explain the tax issues relating to the status of the IT consultants. (15)

7. Bill Meecham purchased a large, empty Victorian property on 1 July 2013 for £500,000, which he then furnished and let as student accommodation until 1 September 2016.

He then converted the property into a hotel, incurring £150,000 on building costs; £100,000 on fixtures qualifying for capital allowances and £150,000 on furniture, equipment and decorative items. The hotel opened for business on 1 January 2017 and was operated by Bill as a sole trader until 1 January 2025 when it was sold for £1,350,000 and his hotelier business ceased.

The sale price was allocated under the sale agreement as follows and is a 'just and reasonable' apportionment:

	£
Property	1,200,000
Fixtures	50,000
Furniture, equipment and decorative items at net book value	<u>100,000</u>
Total	<u>1,350,000</u>

On 1 March 2024 Bill purchased a second-hand car sales business, which he also operates as a sole trader, paying £600,000 for the trading premises and forecourt including fixtures.

By converting a storage area into a workshop Bill now also offers motor repairs and servicing. On 1 March 2025 he incurred expenditure of £100,000 on vehicle lifting equipment which is bolted to the floor of the workshop.

Within the next two years Bill expects to spend £200,000 on building an extension to the garage workshop.

Bill is a higher rate taxpayer and has made no prior asset disposals. Taxable trade profits have always been calculated using the accruals basis.

Requirement:

Calculate the Capital Gains Tax payable in respect of the sale of the hotel and explain any claims for relief which are available. (15)

8. Ivan Skelthorne aged 55, recently retired from a senior position with a national company which provides services and products related to damp-proofing.

He intends to start up his own business providing similar services in his local area and is considering whether he should operate as a sole trader or form a company.

Ivan is entitled to draw his pension from his former employer but would prefer to defer drawing it for the time being. That being the case, he will have no income other than from the business. He estimates that he needs net income of approximately £40,000 per annum to cover living expenses.

A qualified accountant has assisted Ivan in drawing up a business plan and his taxable trade profit for the first year of trading to 31 March 2026 is projected to be £65,000, before considering any remuneration or profit extraction for Ivan.

Requirement:

Discuss, with calculations, the most tax efficient way for Ivan to operate his business and to draw his profits. (15)

You are NOT required to consider the basis of calculating taxable trade profits, capital allowances or taxable benefits.

9. Salvo Ltd has operated as a successful IT consultancy and software engineering company for over 10 years. Unfortunately, trading has declined over the last two years as a result of a combination of the loss of two of its major clients to overseas competitors and the serious ill-health of the sole director and main shareholder, Paul Simms.

The company has a 30 September year end and the shares are held 75% by Paul Simms and 25% by his nephew Steve Western. Paul subscribed at par for his shares on incorporation in June 2010. Steve is a freelance IT consultant who runs his own business and has never held any formal role within Salvo Ltd, principally because several of his largest clients require that he does not hold any office or employment with any company in the IT sector. Steve purchased his shares from Paul in May 2015 for £175,000.

Paul and Steve have been attempting to sell Salvo Ltd for over a year but are unable to find a buyer. The company ceased trading on 31 December 2024 and the shareholders would both like to realise the value of their interests in the company as tax efficiently as possible. Paul has suffered serious long term health issues and intends to retire to Wales and have no further involvement in the business. Steve has no interest in the activities of the company as he wishes to focus on his own IT consultancy business.

Set out below is the summarised balance sheet of Salvo Ltd at 31 December 2024.

	£	£
<u>Fixed assets</u>		
Plant and equipment		65,000
<u>Current Assets</u>		
Trade debtors	265,000	
Cash at bank	<u>739,000</u>	
		1,004,000
<u>Creditors</u>		
Trade creditors	17,000	
Directors loans (owed to Paul Simms)	40,000	
Taxes and social security	<u>12,000</u>	
		<u>(69,000)</u>
		<u>1,000,000</u>
<u>Capital and reserves</u>		
Called up share capital		100,000
Profit and loss		<u>900,000</u>
		<u>1,000,000</u>

The tax written down value of the fixtures and fittings at 30 September 2024 was £12,000 and the market value on 31 December 2024 was £2,000.

The cash deposits represent accumulated profits. Your firm has already obtained clearance from HMRC that the company meets the trading criteria of s.165A TCGA 1992.

The tax adjusted trading profits and losses have been as follows:

	£
30 September 2024	(120,000)
30 September 2023	(1,000)
30 September 2022	30,000
30 September 2021	110,000

The trading loss, before capital allowances, for the final three months to 31 December 2024 was £36,000.

The shareholders have accepted that the goodwill of the company is of negligible value. The lease for the current operating premises comes to an end in 2027 but the lease includes the right for the company to terminate on 30 June 2025.

Requirement:

Explain the tax implications for the company of the cessation of trade and the options available to the shareholders to realise the value of their shareholdings.

(20)

10. Alan Davey is a recording engineer and music producer. He makes up his accounts as a sole trader to 31 December each year and will make an election to continue to calculate taxable trade profits under the accruals basis. Accounts for the year to 31 December 2024 have been produced showing a profit of £73,000 after deducting depreciation and amortisation of £13,000. A detailed list of further points which might be relevant is set out below.

- 1) Alan's former studio was leased under a tenant repairing lease which terminated on 31 July 2024. Immediately after termination the landlord served a schedule of dilapidations comprising the items listed below and in respect of which Alan made a payment of £4,500 to the landlord.

	£
Repairs to windows	500
Repairs to guttering and repointing	2,500
Demolition of sound-proof recording booth	<u>1,500</u>
Total	<u>4,500</u>

This payment is included in repairs and maintenance.

- 2) Alan leased his current studio on a 10-year lease from 1 August 2024 paying a premium of £20,000, which has been capitalised as leasehold additions. Legal and professional costs include solicitor's fees in respect of the new lease of £750.
- 3) Alan runs two cars through the business. One car is an Audi A4 held on a five-year lease taken out in October 2023, under which all costs apart from fuel are covered by the leasing company. Lease rental payments in the year were £6,000 and CO₂ emissions are 145 g/km. Alan also purchased a Mercedes for £10,000 on 1 January 2024, which was first registered in 2014. CO₂ emissions are 165 g/km.

- 4) Motor expenses include:

	£
Fuel – Audi	2,500
Fuel – Mercedes	2,000
Car tax, insurance, repairs and maintenance for Mercedes	500

Alan's mileage logs record:

	<u>Mileage</u>	
	<u>Business</u>	<u>Private</u>
Audi	20,000	5,000
Mercedes	12,000	3,000

ITEPA mileage rates have not been claimed in respect of the Audi.

Alan has a small studio at home where he mixes and masters artists' 'demo' recordings on computer but does not record artists there. When a recording session has been booked at his main studio he drives from home to this studio and back using the Mercedes. Approximately 5,000 of his 12,000 business miles was for those journeys.

- 5) Alan travels throughout the UK recording live bands and stays in a hotel for the night after a gig, where he will normally take an evening meal and he will also take lunch on the way to the venue.

Travel and subsistence costs include £3,500 for hotels and £1,500 for meals.

- 6) Alan was engaged by a record company as a sound engineer and co-producer for work on an album for a major artist, over a period of three months. He rented a one bedroom holiday apartment near to their studio as it was a long way from home from 1 March 2024 to 31 May 2024 at a cost of £750 per month. The project overran by two months and the record company arranged and paid for hotel accommodation from 1 June 2024 to 31 July 2024 at a cost of £6,000 which includes £1,000 for evening meals and refreshments. For two weeks of that period his wife joined him at the hotel.
- 7) Alan incurred £5,000 in the year on music production software which has been written off to computer expenses in the accounts. He expects to use the software for several years but each year a new version is released and existing users are invited to upgrade to the latest version for a lower cost than new subscribers.
- 8) Sundry expenses include £500 for water dispenser refills, tea, coffee and other soft drinks provided to artists during recording sessions.
- 9) Alan is learning to play keyboards so that he can accompany solo musicians in the studio. The cost of the lessons of £800 is also included in sundry expenses.

You also have the following information on file:

- 1) The balance on the capital allowances main pool at 31 December 2023 was £20,000.
- 2) The plant and machinery fixed assets note for the year ended 31 December 2024 was as follows:

	<u>Plant & machinery</u>	<u>Computers</u>	<u>Motor vehicles</u>	<u>Total</u>
	£	£	£	£
Cost	40,000	10,000		50,000
Depreciation	<u>(20,000)</u>	<u>(3,000)</u>		<u>(23,000)</u>
Net book value at 1/1/2024	20,000	7,000		27,000
Additions	10,000 ¹	3,000 ²	10,000	23,000
Depreciation for year	<u>(6,000)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>(11,000)</u>
Net book value at 31/12/2024	<u>24,000</u>	<u>7,500</u>	<u>7,500</u>	<u>39,000</u>

Notes

1. Recording equipment
2. Computer hardware

Requirement:

Calculate Alan's taxable trade profit for the year ended 31 December 2024, annotating how the points listed above have been dealt with. (20)

11. Foodies LLP is a profitable food manufacturing business which operates through a limited liability partnership (LLP). Except for one limited company, all members of the LLP are individuals. Significant amounts of profit have been allocated by the LLP to the corporate partner over the last few years.

Following an initial meeting with the client, the engagement partner is concerned that the 'Partnerships with Mixed Membership' anti-avoidance provisions may apply to the partnership.

Requirement:

Discuss the anti-avoidance provisions and how they relate to the LLP, considering briefly the options for the business going forward. (15)

You are not required to consider any issues in respect of earlier years.

12. SpillClean Ltd is a company which manufactures cleaning products for supermarkets and industrial customers. For many years, the company has operated from rented premises on the outskirts of Newcastle.

The company identified an opportunity to purchase a warehouse property on the edge of the city centre, originally constructed in 2010, which it would then convert into office and manufacturing space. This would mean that the company could leave its rented premises.

The purchase was completed on 30 June 2024 for £500,000, with £100,000 of this price being allocated in the contract to the fixtures incorporated within the building. Substantial expenditure was then incurred on renovating and converting the property.

The company's Finance Director, James Green, has provided the following list of expenditure incurred in the project:

Freehold land and buildings

<u>Date</u>	<u>Description</u>	<u>Cost</u> £
30 June 2024	Purchase of warehouse property	500,000
18 July 2024	Stamp Duty Land Tax	14,500
18 July 2024	Legal fees in respect of property purchase	7,500
31 July 2024	Replacement of roof	25,000
14 August 2024	Formation of internal corridors and rooms	85,000
20 August 2024	Purchase and installation of four solar panels	30,000
28 August 2024	Installation of plumbing and electrical systems	6,500
30 September 2024	Installation of electric vehicle charging points	10,000
14 October 2024	Painting, decorating etc.	3,000
30 June 2024 – 21 October 2024	Site management, security and plant hire costs during works	<u>4,000</u>
Total		<u>685,500</u>

Following completion of the transaction, the lawyers acting for the company in the purchase have forwarded a copy of a signed election under s.198 CAA 2001, in which it has been agreed that the amount of the purchase price which should be allocated to integral features and to other plant and machinery is as follows:

Main pool plant and machinery – £1

Special rate pool plant and machinery – £1

Although manufacturing equipment was transferred from the former premises as part of the move, the company has incurred capital expenditure in purchasing equipment to expand its product range, and in general capital asset replacement. James has also provided a list of these transactions below:

Plant and machinery

<u>Date</u>	<u>Description</u>	<u>Cost</u> £
17 November 2024	Plastic blow moulding machine	40,000
15 December 2024	Plastic granulator	80,000
16 December 2024	Forming moulds	9,000
20 March 2025	Assembly line – 20% deposit paid	60,000

During the year, the company received a £40,000 grant from the Government for capital asset expansion. This was spent in full on the plastic granulator.

On signing the contract for the purchase of an assembly line for £300,000, a 20% deposit was paid. Due to the size of the machinery and the time required to manufacture, this was not delivered and installed until June 2025, when the balance was paid.

Motor vehicles (purchased new)

<u>Date</u>	<u>Description</u>	<u>Cost</u> £
5 May 2024	BMW 320i car – CO ₂ 159 g/km	30,000
10 November 2024	Tesla 3 car – CO ₂ 0 g/km	65,000

The company moved into the renovated property on 1 January 2025.

The company prepares accounts to 31 March each year. The brought forward values on the company's capital allowances pools at 1 April 2024 were:

Main pool – £80,000

Special rate pool – £250,000

Other companies within the same group as SpillClean Ltd have utilised the Annual Investment Allowance for the year in full.

Requirement:

Calculate, with brief explanations, the maximum amount of capital allowances which the company can claim for the year ended 31 March 2025.

You should assume that all beneficial claims are made. (15)

13. Retro Ltd is incorporated in the UK and the issued shares are wholly owned by Peter Brown.

From 1 May 1989 Retro Ltd traded as a wholesaler of shoes and handbags supplying large retail customers from a warehouse and office based in Reading. This trade ceased on 31 December 2013 due to declining sales and profits and it invested residual cash funds of £300,000 in a wide portfolio of UK listed shares.

Retro Ltd retained its freehold warehouse, which was let to a third-party tenant from 1 January 2014. The lease expired on 1 November 2024 and the property is now used as the company's trading premises.

The company recommenced trading on 1 January 2025 selling shoes and handbags through a retail internet site.

Below is an extract from the draft accounts to 30 June 2025 and the management accounts for the six months to 31 December 2024 and to 30 June 2025.

Profit and loss

	Management Accounts for six months to 31 December 2024	Management Accounts for six months to 30 June 2025	Draft Accounts for year to 30 June 2025
	£	£	£
Net trading profits	-	150,000	150,000
Rental income net of expenses	25,000	-	25,000
Dividends received	8,000	2,000	10,000
Interest received	1,000	-	1,000
Profit on sale of investments	-	16,000	16,000
Net profit before tax	<u>34,000</u>	<u>168,000</u>	<u>202,000</u>

Chargeable gains on the sale of investments have been computed as £15,000.

Expenses already charged in arriving at net trading profits of £150,000 above:

	£
Depreciation on plant	10,000
Overdraft arrangement fees	3,000
Directors' remuneration	60,000

Overdraft arrangement fees were incurred in December 2024 and include £1,500 relating to securing personal guarantees given by the shareholder.

Directors' remuneration of £60,000 includes £1,500 for each six-month period for managing the company's investments.

Retro Ltd has £12,000 of excess management expenses brought forward at 1 July 2024.

On 1 December 2024, the company spent £115,000 on moveable shelving systems in the warehouse.

The tax written down values of the capital allowances pools at 30 June 2024 were nil. There are no related companies. The market value of fixtures and other plant in the warehouse at 1 November 2024 belonging to Retro Ltd was £25,000.

Requirement:

- 1) Prepare the computation of taxable total profits for Retro Ltd for the year ended 30 June 2025. (11)
 - 2) Calculate the Corporation Tax liabilities for Retro Ltd and state the due dates for payment. (4)
- Total (15)

14. Bellissimo Ltd manufactures ice cream from a factory in South Wales. The company was incorporated by Mr Tony Rossi in 1999 with 900 ordinary £1 shares.

Maria Rossi

Maria acquired the 900 ordinary £1 shares in Bellissimo Ltd as a gift from her father, Tony, in March 2019. The Capital Gain arising was subject to a joint hold-over election under s.165 TCGA 1992. Maria is the sole director of the company.

The freehold factory premises were purchased by Maria in April 2018 for £1.5 million. The current market value is £2 million.

The company is charged rent based on 50% of the full market rental value.

Alan Jones

Alan is a family friend and is not an officer or employee of the company. 100 ordinary £1 shares in Bellissimo Ltd were issued to Alan at a premium on 12 December 2024, for cash, as the company required additional funds for trading purposes.

Proposed sale

The shareholders have received an offer of £1 million from a third party to purchase all 1,000 ordinary shares in Bellissimo Ltd for cash. It is intended that the sale will be completed by 31 December 2025.

Immediately following the share sale, it is proposed that Maria will grant a new five-year lease to Bellissimo Ltd at a market value rent (with no premium). On expiry of the lease in December 2030, Bellissimo Ltd may exercise an option to acquire the freehold at its then market value.

A non-statutory clearance has been obtained from HMRC which confirms the company satisfies the conditions of a trading company within the definition of s.165A TCGA 1992.

Maria and Alan are both higher rate taxpayers.

Requirement:

Explain the Capital Gains Tax consequences for both shareholders on the disposal of the shares and the property. You should include any suggestions to mitigate any tax that is due. (15)

Calculations are NOT required.

15. Mr Morse has traded as a builders' merchant, Builders R Us, for many years. Taxable trade profits have always been calculated using the accruals basis. Taxable profits from his sole trade for the year to 31 December 2021 of £85,000 were reported in his 2021/22 self-assessment return, which was filed with HMRC on 1 October 2022. The following items were disclosed in the Capital Gains Tax pages of the 2021/22 self-assessment return:

15 Station Road, Birmingham – gain £75,000

214 Winston Road, Sutton Coldfield – gain £25,000

The following letter has been sent by HMRC with accompanying discovery assessment for the tax year 2021/22.

31 October 2025

Dear Sir

A Morse - self-assessment return – 2021/22

Mr Morse's self-assessment (SA) return for 2021/22 included two property transactions for which we have established the facts outlined below. This information was provided at a meeting in relation to an enquiry into his 2023/24 SA return.

- 1) The property at 15 Station Road was purchased in February 2021 for £275,000 inclusive of acquisition costs. This transaction was funded from the Builders R Us current account and the business subsequently had to raise an overdraft to maintain its working capital. The property was subject to some repairs (costing £5,000) and marketed for sale in June 2021 for £385,000. It was subsequently sold for £350,000 (after selling costs).

In my view the purchase and sale of 15 Station Road has the hallmarks of a trading transaction and the profit of £75,000 should be subject to Income Tax at 40%. Class 4 National Insurance will also be payable.

- 2) Mr Morse purchased 214 Winston Road in May 2021. The materials for the refurbishment were drawn from Builders R Us stocks and no reimbursement was made by Mr Morse for those items. The expenditure was made to enhance the property and therefore capital in nature. The estimated stock value is £75,000, with a purchase price of £30,000. No adjustment has been made in the SA return in respect of the stock.

The house was rented to tenants from 31 July 2021 to 31 March 2022, when it was sold. Adjusted rental income was included in the SA return. I agree that the profit on the sale of 214 Winston Road is not a trading transaction.

As the time-limit for an enquiry into the 2021/22 return has passed I attach an assessment under s.29 TMA 1970 for Income Tax. Information on how an appeal may be made is also attached...."

Mr Morse has confirmed that:

- 1) He has not undertaken any property renovation projects for sale or letting other than the transactions undertaken during 2021/22.
- 2) He has never lived in these properties.
- 3) No additional information on the properties was provided to HMRC in the 2021/22 return.

Requirement:

Explain the advice you would give Mr Morse on the matters outlined in the Inspector's letter. (20)

You are NOT required to comment on anti-avoidance rules for transactions in UK land.

Assume the rates of Class 4 National Insurance Contributions in 2021/22 are the same as for 2024/25.

16. Sally Barnes is the sole shareholder of Lothian Engineering Ltd, a company specialising in the design and manufacture of precision engineering tools, which she founded in 2005.

Over the 20 years of the company's existence, it has grown significantly. Turnover for the year ended 30 June 2025 has grown to £15 million and gross assets at the same date were £3.5 million. The company has 85 full-time employees.

Sally has built up a small but talented management team, who look after the day to day running of the company's operations.

As she is now 60 years of age, Sally is looking to retire from the business within the next five years and it is likely that she will sell the business to a third-party purchaser at that time. Sally regards the management team as being crucial to the ongoing success of the business and the loss of some of them to competitor companies would have a negative effect on the value of the business.

As a result, Sally wishes to consider any potential tax-efficient ways in which she could incentivise the management team to remain with the company. One option she would like to explore further is how the management team could share in the value of the company on an eventual sale, as they have helped to create it. However, this should only be the case if the manager remains with the company at the time of its sale and so Sally does not want to simply give them share capital at this point.

Requirement:

Explain how Sally Barnes may share value with her management team on an eventual sale of the company. (15)

17. George started to trade as a wholesaler of Christmas decorations on 1 April 2024. He operates his new business out of rented premises in South Birmingham. He prepares accounts to 31 March.

The following information is relevant for the year ended 31 March 2025.

	£
Sales invoices sent to customers	141,000
Amounts received from customers	135,700
Purchase invoices received from suppliers	19,800
Amounts paid to suppliers	18,000
Rent paid for warehouse	16,500
Internet costs paid to suppliers	1,550
Electricity costs paid to suppliers	4,600
Business rates paid	2,800
Insurance premium paid	300
Staff costs paid	18,400
Car running costs	1,200
Van running costs	2,500

All sales are invoiced on the day that the goods are dispatched.

George has determined that the cost of sales for the year ended 31 March 2025 is £17,200.

At 31 March 2025 George owed £1,500 of rent for the month of March 2025, £85 for internet charges for February and March 2025 and £300 for electricity used in the first quarter of 2025. His business rates were due and paid on 1 April 2024 for the year and vehicle running costs have no outstanding amounts due.

The insurance premium mentioned above was paid on 1 June 2024 to cover the 6 months to 30 November 2024. The premium due for the 6 months to 31 May 2025 is £400 but has not yet been paid. George operated the business for the first 2 months without insurance due to cash flow issues.

George bought a second hand van for £15,000 on 1 April 2024. He drove 6,000 miles in the van in the year ended 31 March 2025 of which 4,000 were on business journeys.

On 1 October George took on an employee. The staff costs are the amount due and paid for the period to 31 March 2025.

On 1 January 2025 George bought a car for use by the employee who in addition to helping at the warehouse also does some travelling sales work. The car cost £18,200 and has CO₂ emissions of 40g/km. There is 50% private use of the car by the employee. Class 1A NICs of £31 will be paid for 2024/25.

In April 2024 George spent £10,000 on a computer and warehouse and office equipment but one of the desks he bought for £500 proved unsuitable so he sold it for £300 in July 2024.

George took Christmas decorations out of stock in December 2024 for his own use. The business had paid £2,000 for the decorations in September 2024. These decorations would have been sold by George for £8,500.

George does not want to claim flat rate expenses.

Requirement:

- 1) Calculate the taxable trade profit for the business for the year ended 31 March 2025 if the cash basis is used to calculate profits.
- 2) Calculate the taxable trade profit for the business for the year ended 31 March 2025 if the accruals basis is used to calculate profits.

(15)

ANSWERS

1. BLUE AND WHITE PARTNERSHIP

Part 1)Capital Allowances Computation

	£	Claim 50% £
Additions 1 April 2024	34,734	
Less: WDA @ 6%	<u>(2,084)</u>	<u>1,042</u>
WDV c/f	<u>32,650</u>	

Allocation of profits:

	Total £	Ward £	Mellor £	Horton £
<u>Y/e 31.3.24</u>	<u>(90,000)</u>			
1.4.23 to 31.10.23 (3:2)	(52,500)	(31,500)	(21,000)	
1.11.23 to 31.3.24 (5:4:1)	<u>(37,500)</u>	<u>(18,750)</u>	<u>(15,000)</u>	<u>(3,750)</u>
	<u>(90,000)</u>	<u>(50,250)</u>	<u>(36,000)</u>	<u>(3,750)</u>

Y/e 31.3.25

Profits	170,000			
Less: CAs (above)	<u>(1,042)</u>			
Split (5:4:1)	<u>168,958</u>	<u>84,479</u>	<u>67,583</u>	<u>16,896</u>

Tutorial Note:

Even though the car is purchased personally capital allowances are given in the partnership adjustment of profits. Since there is no mention in the profit sharing arrangements it is assumed that there is no adjustment in the allocation of profit.

Tax and NIC Calculations 2023/24

Mr Horton:

Mr Horton is treated as commencing a trade on 1 November 2023, and any loss accruing in his first tax year is measured on a tax year basis.

His allowable loss is therefore:

2023/24 (1.11.23 - 31.3.24)	£
Net loss	<u>(3,750)</u>

	£
Income tax:	
Employment income (£60,000 x 7/12)	35,000
Less: Trade loss	<u>(3,750)</u>
Net income	31,250
Less: PA	<u>(12,570)</u>
Taxable	<u>18,680</u>

Tax @ 20%	<u>3,736</u>
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Class 4 NIC (no profits)	<u>Nil</u>
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Class 1 NIC on employed earnings (£5,000 p/m):	£
£(4,189 – 1,048) @ 12%	377
£(5,000 – 4,189) @ 2%	<u>16</u>
	<u>393</u>

x 7 months 2,751

Neither Mr Ward nor Mr Mellor will have any tax or NIC liabilities for 2023/24 due to losses arising in the year.

Tax and NIC Calculations 2024/25

Mr Ward:

	£
Income tax:	
Profit	84,479
Less: Loss b/f	<u>(50,250)</u>
Net income	34,229
Less: PA	<u>(12,570)</u>
Taxable	<u>21,659</u>
Tax @ 20%	<u>4,332</u>

Class 4 NIC (exempt as > pensionable age) Nil

Mr Mellor:

	£
Income tax:	
Profit	67,583
Less: Loss b/f	<u>(36,000)</u>
Net income	31,583
Less: PA	<u>(12,570)</u>
Taxable	<u>19,013</u>
Tax @ 20%	<u>3,803</u>

Class 4 NIC:
£(31,583 – 12,570) @ 6% 1,141

Mr Horton:

	£
Income tax:	
Profit	16,896
Less: PA	<u>(12,570)</u>
Taxable	<u>4,326</u>
Tax @ 20%	<u>865</u>

£

Class 4 NIC:

Profit	16,896
Less: Loss b/f (Note)	<u>(3,750)</u>
	13,146
Less: Lower profits limit	<u>(12,570)</u>
NICable	<u>576</u>
@ 6%	<u>35</u>

Note:

Loss offset against non-trading income in 2023/24 is still available to c/fwd for Class 4 NIC purposes.

Part 2)

Reliefs available for Ward and Mellor are shown below, together with a note of time limits and any potential restrictions on making a claim.

The maximum loss which can be set against non-trade income in a year is the greater of:

- £50,000
- 25% of the individual's adjusted total income for the year.

Losses are restricted to a maximum offset of £25,000 against general income or capital gains where the claimant carries on the business in a non-active capacity.

Type of loss	Available relief	Timing	Restrictions
Losses of a continuing trade	Against general income of the same and/or preceding year	Claim by anniversary of 31 January following tax year of loss	Restrictions if not active in the business or loss artificially created. Must be trading with a view to profits
	Against capital gains of the same year (whether arising from trading or personal disposals)	Claim by anniversary of 31 January following tax year of loss	Restrictions if not active in the business or loss artificially created. Must be trading with a view to profits. Must be offset against income first
	Carried forward against subsequent profits of the same trade	Claim to establish loss 4 years from end of tax year of loss	None

Reliefs available to Horton are as detailed above for Ward and Mellor. In addition however he may claim early years carry back relief as detailed below:

Type of loss	Available relief	Timing	Exclusions or restrictions
Losses in the first 4 fiscal years of a trade	Carried back against general income of 3 preceding tax years, against earliest year first	Claim by anniversary of 31 January following tax year of loss	Restrictions if not active in the business or loss artificially created. Must be trading with a view to profits.

MARKING GUIDE

TOPIC	MARKS
<u>Part 1)</u>	
Capital Allowances calc	1
Loss allocation y/e 31.3.24	1
Profit allocation y/e 31.3.25	1
Horton Tax Calc 2023/24	1½
Horton NIC Calc 2023/24	½
Ward Tax Calc 2024/25	1
Ward NIC Calc 2024/25	½
Mellor Tax Calc 2024/25	1
Mellor NIC Calc 2024/25	1
Horton Tax Calc 2024/25	½
Horton NIC Calc 2024/25	1
	10
<u>Part 2)</u>	
Loss reliefs for Ward and Mellor	2½
Early year loss relief for Horton	1½
Restrictions on loss relief	1
	5
TOTAL	15

Examiner's report:

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Part 1 required an understanding of how to deal with changes in PSR and consequent apportionment issues, and was reasonably well answered with the majority of candidates covering many salient points.

The main (and easily avoidable) error was that many candidates failed to identify that Ward's age (69) meant that he was entitled to exception from Class 4 NI.

The answers in Part 2 (relating to use of losses) were in many cases uninspiring and/or incomplete with many easy marks missed by candidates.

2. HIGH CROSS MOTOR SERVICESPart 1)Partnership computation – year ended 31 March 2025

Adjustment of loss:

	£
Loss per accounts	(272,000)
Add: Depreciation	12,000
Bank charge (see below)	Nil
Adjusted loss	<u>(260,000)</u>

Allocation of loss 2024/25:

	Total £	Alex £	Nick £	David £
Loss y/e 31 March 2025	<u>(260,000)</u>			
6 months to 30 September 2024:				
Loss split 50:50:0	(130,000)	(65,000)	(65,000)	
6 months to 31 March 2025:				
Loss split 40:40:20	(130,000)	<u>(52,000)</u>	<u>(52,000)</u>	<u>(26,000)</u>
Total		<u>(117,000)</u>	<u>(117,000)</u>	<u>(26,000)</u>

Bank charges - Negotiation of new long-term loan:

The new bank facility is required as a result of a change in the members of the partnership and might be viewed as linked to a change in the capital structure of the partnership.

However, statutory relief for the incidental costs of obtaining loan finance may be claimed (s.58 ITTOIA 2005), subject to meeting the following conditions:

- a) The costs are incurred on fees, commissions, advertising, printing and other incidental matters;
- b) The expense is wholly and exclusively for the purpose of obtaining the finance, providing security for it or repaying it; and
- c) Interest on the loan is deductible as a trading expense.

On the information provided the above conditions may be satisfied but if the funds are intended to be used as funding for a letting activity; (ie, following the closure of the convenience store and petrol station), it might be arguable that the new finance was not wholly and exclusively for obtaining finance for the trade.

Part 2)PARTNERS' USE OF LOSSESAlex

	2023/24 £	2024/25 £
Trade profits	60,000	
Other adjusted total income		15,000
Less: Carry back of trade loss s.64(2)(b) ITA 2007	(60,000)	
Less: Current year trade loss s.64(2)(a) ITA 2007		(15,000)
Taxable income	<u>Nil</u>	<u>Nil</u>
Unrelieved trade losses		
£(117,000 – 60,000 – 15,000)		<u>(42,000)</u>

There is a general cap on relief for certain losses, including trade losses.

Sideways relief against non-trading income is restricted to the greater of £50,000 or 25% of adjusted total income – s.24A ITA 2007.

The cap does not apply for offset against profits from the same trade.

The unrelieved losses will be carried forward and set against future trading profits under s.83 ITA 2007.

Nick

	2023/24 £	2024/25 £
Trade profits	60,000	
Other adjusted total income		55,000
Less: Carry back of trade loss s.64(2)(b) ITA 2007	(60,000)	
Less: Current year trade loss s.64(2)(a) ITA 2007		(50,000)
Taxable income	<u>Nil</u>	<u>5,000</u>
Gains		100,000
Less: Set off against gains s.261B TCGA 1992		(7,000)
Chargeable gains		<u>93,000</u>
Unrelieved trade losses:		<u>Nil</u>

The claim to carry back trade losses against 2023/24 trading income is unrestricted.

The sideways loss claim for offset against general income in 2024/25 is restricted to the higher of £50,000 or 25% of adjusted total income; in this case £50,000.

The general cap on trade losses does not apply to the offset against capital gains. The claim to offset the remainder of the 2024/25 trade losses against the gain must be made after all available reliefs for using the loss against general income for the year.

Nick's taxable income will be reduced to nil by the personal allowance and the capital gain will be reduced further by the annual exempt amount.

David

	2024/25
	£
Trade profits	Nil
Other adjusted total income	40,000
Less: Current year trade loss s.64(2)(a) ITA 2007	<u>(20,000)</u>
Taxable income	<u>20,000</u>
Unrelieved trade losses:	
£(26,000 – 20,000)	<u>6,000</u>

David is a non-active partner for the period from 1 October 2024 – 31 March 2025 and this will limit the use of his trade losses against other income.

The sideways relief for David's trading losses is restricted to the lower of:

- a) The contribution to the partnership in early tax years (applying in the tax year of commencement and next 3 tax years) – s.110 ITA 2007; and
- b) An overall cap for non-active partners of £25,000 for any tax year – s.103C ITA 2007.

His contribution to the partnership capital of £20,000 is lower, and this will therefore cap relief for losses in 2024/25.

The remainder of the trading loss can be carried forward under s.83 ITA 2007 and used against profits of the same trade.

David cannot claim for sideways loss relief against net income in 2023/24 or under relief for early years trade losses of the previous three tax years due to insufficient taxable income and gains.

MARKING GUIDE

TOPIC	MARKS
<u>Part 1</u>	
Adjustment of loss	1
Allocation of losses between partners	2½
Explanation re bank charges	1½
	5
<u>Part 2</u>	
Alex:	
S.64 carry back	1
S.64 current year	1
Discussion of cap	1
S.83 carry forward	1
	4
Nick:	
S.64 carry back	1
S.64 current year	1
Restrict current year set off to £50,000	1
S.261 relief against gains	1
Discussion of cap	1½
Mention of PA & AEA	½
	6
David:	
S.64 current year	1
Non-active partner	1
Sideways relief restricted to contribution or £25,000	2
Remainder c/fwd v trading profits	1
	5
TOTAL	20

Examiner's report:

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Generally, the question was well attempted but there were a few problem areas:

- The question specifically stated that NO tax liabilities should be computed. A significant number of candidates calculated the income tax liabilities for each of the partners and/or allocated losses in various permutations – for which no marks were available.
- Only a small number of candidates identified the statutory relief for incidental costs in obtaining loan finance (s.58 ITTOIA 2005).
- A number of candidates referred to loan relationship rules for the bank charges. These rules do not apply to non-corporates.
- Most candidates identified the s.24A loss restriction but some did not demonstrate a clear understanding of how this applied - particularly when there are available trade profits and capital gains.

3. TOPAZ LTD

- a) The deposit of £20,000 will qualify as expenditure on plant and machinery (P&M) even though the expenditure was abortive. s.67 CAA 2001 applies where expenditure is incurred under a contract providing that the person incurring the cost shall or may become the owner on performance of the contract. P&M is treated as owned by a person at any time when he is entitled to the benefit of the contract.
- b) The general rule in s.5(1) CAA 2001 is that expenditure is incurred when there is an unconditional obligation to pay. However, under s.5(5) CAA 2001 where part of the expenditure is not due to be paid until more than 4 months after the obligation to pay becomes unconditional, the amount payable after 4 months is treated as incurred on the date that payment is due. The final payment of £35,000 due on 30 August 2025 falls outside the 4 month period and is therefore treated as incurred on that date.
- c) Where P&M is purchased on hire purchase, s.67 CAA 2001 treats the person as owning the P&M at any time when they are entitled to the benefit of the contract, as above. Under s.67(3) CAA 2001 when the P&M is brought into use, all capital expenditure not yet relieved is treated as having been incurred. Since the crane was not brought into use until 2 May 2025, for the instalments paid on 1 February, 1 March, 1 April and 1 May the capital element of each payment is treated as incurred when paid. The balance of the capital element of the expenditure is treated as incurred when the crane is brought into use on 2 May 2025. The finance charge element of each payment is treated as revenue expenditure.
- d) An unconditional obligation to pay arose at the time the computer equipment was delivered on 25 March 2025. As the ownership of the equipment passed by delivery (there is no indication that the supplier reserved title) the equipment belonged to Topaz Ltd from 25 March 2025 as required by s.11(4)(b) CAA 2001. Capital allowances are therefore available on the expenditure of £20,000 in the year ended 31 March 2025.
- e) S.67 CAA 2001 will apply to the deposit of £50,000 paid on 1 January 2025 in respect of the polishing machine in a similar way to the deposit at (a) above. The deposit will therefore be qualifying expenditure for the year ended 31 March 2025. However, since the machine was not delivered until 16 May 2025, when payment is also due, the obligation to pay did not become unconditional until delivery. The balance of expenditure of £150,000 will therefore be allowable for the year ended 31 March 2026.

Tutorial Note:

S.67 primarily applies to HP contracts. However it is not restricted to HP contracts. It can apply to a deposit because you are incurring expenditure on a contract which provides you will become the owner of the asset on the performance of the contract which is what s.67(1) specifies. What this means as a general rule is that you can claim CAs on a deposit when the deposit is paid.

- f) S.176 treats Topaz Ltd as the owner of the fixtures as and when the fixtures are installed. An unconditional obligation to pay arises on the issue of each certificate by Topaz Ltd's project engineer. Payments 1 to 4 are treated as incurred in the year to 31 March 2025. The provisions of s.5(4) CAA 2001 apply to payment 5 as a certificate was given within 1 month of the end of the chargeable period and related (partly) to work which had become the property of the company at 31 March 2025. To that extent, the expenditure is treated as incurred immediately before the end of the chargeable period.

In relation to the amount certified on 15 April 2025, part of the work certified is likely to have been carried out on or before 31 March 2025. The amount apportioned to that part of the work would therefore be regarded as incurred at that date - say 50% of the work certified of £230,000 as having been incurred at 31 March 2025 i.e. £115,000.

Tutorial Note:

S.176 specifies that Topaz Ltd becomes the owner at the time the plant and machinery becomes a fixture. To the extent the asset has been installed prior to the year end the asset will be the property of the Topaz at the year end. The obligation to pay however does not arise until certification, which in relation to payment 5 is 15 April. To the extent the certificate relates to work done by 31 March 2025 then under s.5(4) CAs will be able to be claimed in the year ended 31 March 2025.

<u>Summary of expenditure</u>		<u>Revenue</u>		<u>P & M</u>	
		31.3.2025	31.3.2026	31.3.2025	31.3.2026
		£	£	£	£
a)	Deposit			20,000	
b)	Rolling machine			70,000	35,000
c)	Crane on HP	2,500	15,000	10,000	110,000
d)	Computer equipment			20,000	
e)	Polishing machine			50,000	150,000
f)	Fixtures:				
	Payments 1-4			220,000	
	Payment 5			115,000	115,000
Totals		<u>2,500</u>	<u>15,000</u>	<u>505,000</u>	<u>410,000</u>

MARKING GUIDE

TOPIC	MARKS
(a) Deposit – allowance	1
Analysis per s.67	1
(b) Rolling machine – allowances/allocation	1
Analysis per s.5(5)	1
(c) Crane on HP – allowances/allocation	1
Analysis per s.67(3)	1
Treatment of finance charges	1
(d) Computers - allowance	1
Analysis per s.11(4)(b)	1
(e) Deposit – treatment per s.67	1
Balance – allowable y/e 31.3.26 analysis	1
(f) Fixtures:	
Payments 1-4: Allowances	1
Payment 5: Provisions of s.5(4)	1
Allocation between years	2
TOTAL	15

Examiner's report:

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This question was certainly not popular with candidates, with marks varying wildly. Quite a few candidates wasted time working out the capital allowances due whereas the question asks for the amounts and timing of expenditure. Candidates generally made the point that expenditure is incurred when the obligation to pay becomes unconditional though many did not appear to know what that actually involved. Many candidates confused the rules in s.5 CAA 2001 with the rules on assets bought on HP etc under s.67 CAA 2001. Quite a lot of candidates conflated the incurring of expenditure with bringing into use which is not relevant outside the requirements of s.67. Others considered that the obligation to pay arose on delivery and that the time of bringing into use was not relevant. Some candidates chose the invoice date as the date the expenditure was incurred.

Some candidates, presumably who have received accountancy training, approached the question in terms of the capitalisation of expenditure for accounting purposes. The capital allowances and accounting rules thereby became confused and gave rise to incorrect responses. Similarly, a minority of candidates referred to the 'tax point' in relation to the date expenditure is incurred, which therefore appeared to be confusing the CA rules with VAT.

4. GREG AND CHRIS LEGHORNChoice of business medium

There are 3 choices of business medium namely:

- 1) A traditional partnership.
- 2) A limited liability partnership.
- 3) A limited company.

Outlined below is how the brothers and their father Lionel can obtain tax relief for the trading loss to be incurred by the “Eggs Box” under each of the 3 business vehicles.

Traditional partnership

Once the loss has been calculated for tax purposes it will be divided between the 3 partners in accordance with the agreed loss-sharing ratio. Each partner will then have his own trading loss for the period ended 31 March 2026.

At this point the tax legislation will treat each of the individuals as an independent trader which means that each of them will make their own separate loss relief claims. Such claims are usually made on the individual’s personal self-assessment tax return. Each of them can make different claims should they so wish. A claim of one partner is not binding on another.

The first tax year of trade will be 2025/26. The trading loss attributable to 2025/26 will be the loss of the 9 months between 1 July 2025 and 5 April 2026 (ie the loss of the accounting period to 31 March 2026).

Thereafter each partner’s share of the allowable loss for the year ended 31 March 2027 will be attributed to the tax year 2026/27, the loss for the year ended 31 March 2028 will be attributed to the tax year 2027/28 and so on.

There are essentially 3 ways of obtaining relief for such trading losses within a traditional partnership structure:

- a) “Current year / previous year” loss relief;
- b) “Early years” loss relief; and
- c) “Carry forward” relief.

a) “Current year / previous year” loss relief

The loss can be set against general income (being income from any source) of either the current tax year or the preceding tax year. For example, an individual’s share of the business loss for the tax year 2025/26 can be set against any income they receive in either 2025/26 or 2024/25.

Greg has no income in 2025/26 or 2024/25 other than a modest amount of investment income. As this income will be covered by his personal allowance leaving no tax liability, a current/previous year loss claim is of no use to him.

Chris could claim to set his trade losses against the income he currently receives from his employment with his father-in-law. Claims can be made to set the losses against earnings of either the current year, the preceding year or (if the loss is large enough) both years. A claim will generate a repayment of some or all of the tax deducted at source from these earnings. The NICs deducted will not be refunded.

The maximum amount of certain reliefs that can be claimed against general income in any single tax year is limited to either £50,000 or 25% of total income (whichever is higher). Trading losses set against general income which is not trading income are one

of the reliefs subject to the restriction. However, given that Chris's salary is only £35,000, this is not an issue.

The position is slightly different for Lionel. As Lionel will only work in the partnership for one day a week, he will be a "non-active" partner. A "non-active" partner is a partner who did not spend a "significant amount of time" working in the partnership when the losses arose. "Significant" is defined as an average of at least 10 hours per week.

As a "non-active" partner, Lionel's cumulative loss relief claims against general income (other than income from the trade) in the first four tax years of being a partner are restricted to the amount of his "contribution" to the partnership. Lionel's "contribution" to the partnership is his capital introduced, plus any undrawn profits (here likely to be zero) plus any amount contributed by Lionel on the winding up of the partnership. In addition to this cumulative limit, the maximum loss which can be relieved against general income (other than income from the trade) in any one tax year is £25,000. This annual limit applies in any tax year and not just the first four tax years.

Therefore, while Lionel seems to have sufficient income to be able to absorb his share of the trading losses, his maximum claims are likely to be £25,000 per annum. This would of course change if Lionel increased his average weekly hours to 10 or more such that the rules for non-active partners did not apply, but this may not be feasible.

Chris is not affected by this because, even though he will only work part-time for Eggs Box, he will work more than 10 hours per week in the business.

Finally, it should be noted that trade loss relief against general income is only available if the trade is "commercial"; ie carried on throughout the period on a commercial basis with a view to the realisation of profit. With new product launches such as this there is often a lead period (and sometimes a lengthy one) during which losses are made, but as long as the overall business aim is to generate a profit on trading activities, there appears to be no reason why loss relief as outlined above should not be available.

b) "Early years" loss relief

Start-up businesses will benefit from being able to use "early years" loss relief. This relief is available to traders who incur a loss in any of the first 4 tax years of trading. In this case the relief will apply to trading losses incurred in 2025/26 through to 2028/29 inclusive.

Early years loss relief carries a loss back against general income (before personal allowances) of the 3 preceding tax years, taking the earlier years first. For example, if an individual chooses to make an early years loss claim in respect of a loss for 2025/26, the loss would first be set against their income in 2022/23, then 2023/24 then 2024/25. The claim will generate a repayment of tax in the years in which the loss is relieved.

For Greg this loss option will be particularly valuable as he had employment income up to and including 2023/24. An early years loss relief claim in 2025/26 and 2026/27 would enable the loss to be relieved against his earnings of 2022/23 and 2023/24 respectively. However, he should note that where a loss is carried back to an earlier year, the maximum loss that can be offset in that year against general income which is not income from the trade is the greater of £50,000 or 25% of total income.

For Chris this option may also be of benefit, particularly if some or all of his income fell into the higher rate band in the years 2022/23 to 2024/25. In this case the carry back of the loss to those early years will secure tax relief at a higher rate than a current year claim against employment income.

Lionel can also make an early years loss claim and carry his loss back 3 years against his general income.

However, the rules for non-active partners also apply where claims are made for early years loss relief, so the maximum amount of loss for which Lionel can claim relief in any single year is £25,000.

c) “Carry forward” relief

Where any losses remain unrelievable after a current year / previous year / early years loss relief claim has been made, the excess will be carried forward and set against the first available profits from the trade.

This “carry forward” relief is generally seen as a “last resort” as it delays tax relief for the loss until such time as the business becomes profitable.

The restriction on loss relief available to non-active partners does not apply where the loss is carried forward.

Limited liability partnership (LLP)

LLPs have been described as “a company on the outside but a partnership on the inside”.

In this case the 3 participants (known as “members”) deliver an incorporation document to the Registrar of Companies. The members of an LLP are very similar to the shareholders in a company.

Each member has an interest in the LLP (his “share capital”). Each member's interest must be separately analysed and must show the capital contributed by each member.

The LLP must have at least two designated members – these are very similar to directors of companies. They are the members who are responsible for the management of the LLP. Their responsibilities include signing and filing accounts and appointing auditors (if required). The designated members are stated in the incorporation document.

From a legal perspective, LLPs are similar to limited companies and are subject to the same accounts and audit rules as companies. Most importantly, a member of an LLP has limited liability for the debts and obligations of the LLP incurred while they are a member; ie, they enjoy limited liability in the same way they would as a shareholder of a limited company. Their liability is limited to the amount of capital they contribute to the LLP plus any further amount they have agreed to pay if the LLP is wound up.

However, while an LLP is a company in legal terms, for tax purposes the LLP is treated in the same way as a traditional partnership. Unlike a company, a trading LLP does not pay corporation tax on its profits. Instead the profits of the LLP are allocated to the members who then pay income tax on those profits (in the same way as partners in a traditional partnership).

It is assumed that where a general partnership is used an election will be made for the accruals basis. In the case of an LLP the cash basis cannot be used so the accruals basis will be the default method.

Losses are relieved in a similar way to losses in a traditional unlimited partnership but with one key difference. In an LLP, where a claim is made to set a loss against general income other than income from the LLP (for example under either the current/previous year rules or under early years loss relief), the total amount of the loss which can be relieved is restricted to each member's “contribution” to the LLP. “Contribution” means the capital contributed by the member plus any amount the member is required to pay on a winding up of the LLP.

In simple terms this means that if an individual contributed (say) £100,000 to the business, irrespective of the level of losses sustained by the business and the proportion of those losses allocated for their use, the total amount which they could set against their general income (other than income from the LLP) across the lifetime of the business is capped at £100,000. If they increase their capital contribution, their capacity to offset losses against general income also increases.

In other words, the maximum loss relief available for LLP losses against non-LLP income cannot exceed the maximum amount the LLP member would personally stand to lose if the LLP was wound up.

Any unrelieved losses will be carried forward against the first available trading profits.

As far as Lionel is concerned, as a non-active member of an LLP, the £25,000 annual limit for loss relief against general income will again apply.

Limited company

The final business vehicle is a simple limited company in which the three individuals are director /shareholders. A company cannot use the cash basis.

In this case, the “taxable person” is the limited company and it is the company who will incur (and be responsible for) the business losses.

These losses will be:

- i) Offset against any other income or gains made by the same company in the same accounting period (such as interest earned on a business bank account); then
- ii) Carried forward and offset against total profits of the next and (if not fully relieved) subsequent accounting periods.

The losses of the company will not be allocated to the 3 individuals as director / shareholders. None of the reliefs therefore outlined above which are available to partnerships and LLPs will be available should they choose to trade via a limited company.

Summary

From a tax perspective, the vehicle which offers the most flexibility in terms of loss relief options is the traditional partnership.

Under a traditional partnership, Greg and Chris can claim early years loss relief and carry the losses back against employment income of the previous 3 years thereby securing income tax repayments. The maximum offset each year is £50,000 or 25% of total income. Lionel can do the same but he can only use a maximum of £25,000 per annum against his general income.

The LLP offers similar loss relief options but with the added protection of limitation of liability for the members who would, in the event of a winding up of the business, only be liable up to the amount of their capital contribution. However cumulative loss relief against general income is capped at the member’s contribution.

The limited company offers the same legal protection as the LLP but with no possibility of the director / shareholders being able to offset losses against personal income. A limited company may become a more attractive option as and when the business starts to generate profits.

Tutorial Note:

This is a longer answer than you would be expected to produce for a 20 mark question in an examination but has been provided for tutorial purposes.

MARKING GUIDE

TOPIC	MARKS
<u>Partnership</u>	
Loss allocated in accordance with partnership agreement	½
Loss belongs to individual partner	½
Allocation of losses to tax years	½
Relief under s.64	½
– Loss set against general income	½
– Current and/or prior year	½
– Application to Greg	½
– Application to Chris	1
– £50,000/25% cap	1
– Lionel - non active partner	½
– Contribution restriction – 1 st 4 years	½
– £25,000 limit	½
– Could Lionel increase hours	½
– Trade must be commercial	½
Relief under s.72	½
– 1st 4 years	½
– Set against general income	½
– 3 preceding years FIFO	½
– £50,000/25% restriction	½
– Application to Greg	½
– Application to Chris	½
– Application to Lionel – Non-active restriction	½
Relief under s 83	½
– C/f	½
– Set against first available trade profits	½
– Restrictions do not apply	½
<u>LLP</u>	
Overview	½
Formation	½
Legal form	½
Tax	½
Loss reliefs as for traditional partnership	½
Contribution restriction where loss set against non-trading income	1
<u>Limited company</u>	
Taxable entity is the company	½
Loss relief is for the company	½
Set against other income and gains of same accounting period	½
C/f against future total profits	½
None of the 'individual' loss reliefs will apply	½
TOTAL	20

5. LM LIMITED**1) R&D EXPENDITURE**

All of the revenue expenditure is an allowable deduction in arriving at the taxable trade profit. This amounts to £161,000 (103,000 + 2,000 + 3,800 + 2,200 + 50,000).

Qualifying R&D expenditure for RDEC

	£	£
Staff costs		
Alan Hart	28,000	(direct expenditure)
Alan Hart pension contribution	<u>2,000</u>	(direct expenditure)
		30,000
Janice Stanley		25,000 (direct expenditure)
Harry Marshall		<u>5,000</u> (direct expenditure)
		60,000 Note 1
Sub-contracted costs		
Test Cage Ltd		42,000 Note 2
Consumables		
Water, fuel and power		<u>750</u> Note 3
Total qualifying expenditure for RDEC		<u>102,750</u>

Corporation Tax Liability - year ended 31 March 2025

	£	£
Taxable trade profit before relief		525,000
Less:		
Allowable expenditure	(161,000)	
Add: RDEC – taxable receipt		
102,750 @ 20%	<u>20,550</u>	
		(140,450)
R&D capital allowances		
60,000 @ 100%		<u>(60,000)</u>
		<u>324,550</u>
324,550 @ 25%		81,138
Less: RDEC		<u>(20,550)</u>
		<u>60,588</u>

Notes:

1. Alan Hart's and Janice Stanley's costs qualify as direct expenditure as they are directly involved in the R&D project.

Rachel Jones's time does not qualify, as it is not spent resolving a technological uncertainty in the project (and is not a qualifying indirect activity).

Company pension contributions will count as qualifying expenditure

Taxable benefits will not qualify

Statutory redundancy costs are non-qualifying expenditure for R&D

Only $\frac{1}{6}$ th of Harry Marshall's costs (£30,000 x $\frac{1}{6}$) are qualifying direct expenditure

2. Usually the relief for subcontracted R&D expenditure is limited to 65% of the total payment to the sub-contractor but LM Ltd may jointly elect with Test Cage Ltd under s.1135 CTA 2009 to base the claim on the actual expenditure incurred by the subcontracted company. The election for this treatment must be made by 31 March 2027.
3. Water, fuel and power costs are specifically included as qualifying for enhanced R&D relief (s.1125(2) CTA 2009).

Telephone and rent costs do not qualify, as these are not within any of the heads of qualifying expenditure; i.e. they are not consumed or transformed in the R&D process.

4. The construction of the R&D workshop is not qualifying R&D expenditure as it is capital expenditure. However, although it is a building, it qualifies for 100% R&D capital allowances, as it is used for qualifying R&D purposes

2) COMPANY IS LOSS MAKING

- a) If the company had made a loss, the company could receive a cash payment in respect of the RDEC from HMRC.

The repayment would be restricted to the lower of:

- (i) the RDEC less the RDEC at 19%;
- (ii) and the PAYE cap (£20,000 plus 3 x the company's relevant PAYE and NIC liabilities).

This amount would be used to meet a corporation tax liability of another period or other outstanding tax liabilities before being repaid.

Any RDEC remaining would be carried forward to be used against the corporation tax liabilities of a subsequent accounting period.

- b) Alternatively, if LM Ltd meets the definition of an R&D intensive SME (fewer than 500 employees, annual turnover not more than €100 million and the qualifying R&D expenditure at least 30% of total expenditure), 186% of the qualifying expenditure can be deducted in arriving at the allowable loss.

A further relief allows the surrenderable loss (the lower of the unrelieved trading loss and 186% of the qualifying R&D expenditure) to be surrendered for a tax credit (lower of 14.5% of the loss and the PAYE cap). The credit can be repaid to the company.

MARKING GUIDE

TOPIC	MARKS
Identifying expenditure is allowable revenue deduction	$\frac{1}{2}$
R&DQE:	
Hart and Stanley qualifying expenditure	1
Jones non-qualifying	1
Pension contribution qualifies	$\frac{1}{2}$
Benefits in kind do not	$\frac{1}{2}$
Redundancy payments do not qualify	$\frac{1}{2}$
Marshall proportion qualifying direct expenditure	$\frac{1}{2}$
Subcontracted expenditure elect for actual cost incurred if greater than 65% of total charge	1
Water, fuel, power qualifies	1
Telephone and rent will not qualify	1
100% R&D capital allowance on building	1
CT Comp:	
Deduct allowable expenditure	$\frac{1}{2}$
Add RDEC	1
Deduct CAs	$\frac{1}{2}$
Tax at 25%	$\frac{1}{2}$
Deduct RDEC	1
Repayment re RDEC	$\frac{1}{2}$
Restriction	$1\frac{1}{2}$
Offset against liabilities	1
Remaining RDEC c/f	$\frac{1}{2}$
Meets definition of R&D intensive	1
186% deduction	$\frac{1}{2}$
Surrenderable loss	1
Tax credit calculation	1
Treatment of tax credit	1
TOTAL	20

6. PLEX LIMITEDSelf-employment status of new IT consultants

Employment/self-employment is not a choice nor is it defined in the tax legislation. HMRC provide an on-line “status test” that may be used as a guide but this is only indicative. Over the last 70 years Court and Tribunal decisions have articulated a number of tests that are accepted as indicative of one status or the other. It is unlikely that one test in isolation will be conclusive, it is therefore necessary to consider the relevance of each test as part of the whole engagement.

KEY FACTORSMutuality of obligation

Under an employment relationship the employer is required to provide work and the worker is obliged to accept it. A self-employed contractor would have no certainty that further work would be offered and would be under no obligation to accept it if it were.

Substitution/Personal service

An employee must provide their services personally. In a self-employed relationship, it is likely that the contractor may legitimately provide a suitably qualified substitute if appropriate.

Control

The greater the degree of control exercised over the day-to-day work of the consultant, the closer this is to employment. Where possible, the engagement should define key objectives and timescales. The implementation of how, when and where these objectives are achieved should be left to the consultant.

OTHER FACTORSFinancial risk and opportunity for profit

Other than the ultimate risk of losing their job, an employee would not expect to have any personal financial risk. Similarly, they would have limited opportunity for significant profit. On the other hand, a self-employed individual would expect to increase their overall profit through the efficient implementation of their engagement or suffer financial risk if they fail to deliver. Where possible the consultants should be asked to tender for each engagement. Ideally staged payments on the completion of agreed milestones would be advisable rather than a fixed day rate for an unspecified period.

Own equipment

Although not particularly relevant in the context of an IT consultancy, the consultants should be required to provide their own equipment such as laptops, telephones etc.

Integration into the organisation

Subject of course to the efficient implementation of the project, the consultants should not be overtly integrated into Plex Ltd. For example, an employee of the company would normally expect a range of benefits such as company pension contributions, private medical insurance, paid holiday and sick leave together with other typical employment “perks” such as their own desk or office, business cards, dedicated email address and entry on the company’s intra-net. Where possible, the consultants should be excluded from these.

Number of other engagements

Provided there are no competitive conflicts, the consultants should be at liberty to undertake other contracts with third parties.

Business operation

The consultants should demonstrate that they operate as a legitimate self-employed business. This should be supported by third party evidence such as sight of accounts and written confirmation from the individual's accountant. The consultant should raise VAT invoices where appropriate and demonstrate that suitable professional indemnity insurance is in place.

What happens if incorrectly treated?

An individual's employment status must be decided on a case-by-case basis. It is essential that this is addressed correctly as the primary responsibility to operate PAYE rests with the employer. In the majority of cases any sanctions for failing to do so will be applied to the employer.

If HMRC do establish that PAYE should have been operated, then they will seek to collect both income tax and employee's and employer's National Insurance Contributions (NICs) from Plex Ltd. It is recommended that the contractual arrangement with the consultants should allow Plex Ltd to seek recompense where appropriate.

HMRC are normally able to go back up to four years. In the event that they can demonstrate that due care was not taken then this is extended to six years.

Following the case of Demibourne Ltd v HMRC, where the consultant is able to demonstrate that they have declared their income and paid the appropriate amount of tax then HMRC will usually allow credit for these payments against the PAYE obligation.

A similar position applies in the case of Class 4 NIC paid. HMRC have the power to offset such payments against Class 1 NIC found to be due.

Any PAYE/NIC found to be paid late will be subject to an interest charge calculated from the normal due date of the liability in question.

In addition, Plex Ltd will be potentially liable for penalties for the failure to operate PAYE. Where HMRC are able to demonstrate "carelessness" then the penalty may range between 0% and 30% of the under-declared tax. As such it is essential that due care is applied when engaging each consultant.

MARKING GUIDE

TOPIC	MARKS
No one test conclusive, need to consider as a whole	1
Mutuality of obligation	½
Explanation	1
Substitution/Personal service	½
Explanation	1
Control	½
Explanation	1
Financial risk and reward	½
Explanation	1
Own equipment and explanation	½
Integration	½
Explanation	1
Number of engagements and explanation	½
Business operation	½
Explanation	1
Primary responsibility of employer	½
Ensure some form of contractual recompense	½
Look back up to 6 years for carelessness	½
HMRC will usually allow offset	½
Subject to interest charge	½
Potential penalties	½
Range of penalties for carelessness	1
TOTAL	15

Examiner's report:

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Most candidates had a reasonable understanding of the basic employment/self-employment tests but a number simply listed a series of words such as "mutuality of obligation" and "control" without any explanation.

The answers indicate a substantial deference to HMRC powers in determining employment status without acknowledging that this is dependent on legislation, case law and precedent; it is not on the determination of HMRC or on-line checklists.

A significant number of candidates wasted time outlining the provisions of IR35 which was only incidentally relevant in the context of establishing the status of the individual contractors who were all stated to be individuals.

7. BILL MEECHAM

The CGT liability for 2024/25 on disposal of the hotel is calculated as follows:

	£	£
Sale proceeds of property and fixtures		1,250,000
Less:		
Purchase price	500,000	
Conversion costs	<u>250,000</u>	
		<u>(750,000)</u>
Gain		500,000
Less: Annual Exempt Amount		<u>(3,000)</u>
Taxable		<u>497,000</u>
CGT @ 10%		<u>49,700</u>

Furniture, equipment and decorative items were all sold below cost and so no capital gain arises in respect of those items, the proceeds of which are dealt with through the capital allowances computation for the period to cessation of the hotel business.

Bill qualifies for CGT Business Asset Disposal Relief (BADR) and will pay CGT at 10%, rather than the normal rate of 20%. BADR is available for a “material disposal” of business assets, being the disposal of the whole or part of a business or of an asset used in a business at the time of cessation, where the asset is sold within 3 years of cessation, provided the business has been owned by the individual throughout a period of at least two years ending with the date of disposal.

The CGT will be payable on 31 January 2026 as part of Bill’s self-assessment tax liability. However, the CGT rules provide for “rollover relief”, which may be claimed where a business asset is sold and the proceeds reinvested in the purchase of a further qualifying business asset or assets within a time-frame of one year before and three years after the date of disposal of the “old” asset.

Bill owned the hotel for 11.5 years, but for the first 3.5 years the property was not used for the purposes of the hotel trade, as this did not commence until 1 January 2017. Where an asset has not been used for the purposes of the trade for the whole period of ownership, the part of the asset representing the period for which the asset was used for trade purposes is treated as a separate asset. This means that 8/11.5 of the gain i.e. £347,826 can qualify for rollover relief while £152,174 remains taxable, the tax on which of £14,917 $((152,174 - 3,000) \times 10\%)$ is payable on 31 January 2026.

The proceeds of the deemed separate asset for which rollover relief is potentially available are $£1,250,000 \times 8/11.5 = £869,565$. Where the proceeds of sale of the “old” asset are not wholly used for the purchase of the “new” asset(s), some of the gain not reinvested remains taxable.

Bill purchased the car sales business on 1 March 2024 for £600,000. As 1 March 2024 is less than one year before the disposal of the hotel then rollover relief may be claimed. As the cost of the garage was £600,000, this leaves £269,565 of the proceeds not reinvested.

Expenditure qualifying for rollover relief must fall within certain classes of assets, one of which is “fixed” plant and machinery. “Fixed” in this sense refers to equipment which is intended to be fixed in one particular location, but which does not become part of a building. Bill purchased garage equipment for £100,000 on 1 March 2025 which is within the period of three years from the date of sale of the hotel. Where relief is claimed in respect of “new” assets which have a useful expected life of less than 60 years, the relief is temporary. Instead of being rolled over against the cost of the new asset, the gain is held over and falls into charge when the new asset is sold, ceases to be used for the purposes of the trade or when ten years have expired. If a non-depreciating asset is

acquired in the meantime a claim may be made to roll over the gain against the cost of that asset.

Bill expects to spend £200,000 within the next two years on extending the garage workshop. Where expenditure is anticipated that will qualify for relief, a provisional claim may be made by making a declaration in the tax return for the year in which the disposal takes place. The relevant return is Bill's 2024/25 tax return, which is due to be filed by 31 January 2026. The declaration ceases to have effect three years after that date unless superseded by a valid claim for relief when the expenditure is incurred. Provided the cost of the extension is incurred on or before 1 January 2028 then rollover relief may be available.

Therefore, if this expenditure is incurred within the required timescale, Bill will have reinvested £800,000 in qualifying assets with a useful life of more than 60 years and £100,000 on qualifying assets with a useful life of less than 60 years.

Rollover relief claims may therefore be made for the whole of the gain on the disposal of the hotel, apart from the £152,174 which does not qualify for rollover relief. Where proceeds are reinvested in more than one type of qualifying asset, as is this case here, Bill can choose how to defer the gain. It is likely to be beneficial to rollover the full amount of the eligible gain against the cost of the premises as it will only be charged when the premises are eventually disposed of. Whereas, if part of the gain is held over, it can only be deferred for a maximum of 10 years.

MARKING GUIDE

TOPIC	MARKS
Calculation of gain on property	1
No CG re furniture & equip – deal with through CAs comp	1
Date for payment of tax	½
Application for BADR: material disposal, in use on cessation, 24-month period of ownership	1½
Rollover relief general description & time limits	1
Application of time limits	1
Effect of s.152(7) and calculation of gain qualifying	1½
CGT payable re non-qualifying gain	1
Calculation of proceeds re separate asset	1
RR available against cost of garage	1
Classes of assets – fixed plant & machinery	1
Explanation & claim for RR re depreciating assets s.154, effect of s.154 (2)	1½
Claim for relief re extension	1
Allocation of relief	1
TOTAL	15

Examiner's report:

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The responses to this question were disappointing. Few candidates managed to calculate even the gain on disposal of the hotel business correctly not realising that fixtures are legally part of the building and therefore the cost/proceeds should have been included in calculating the gain irrespective of the capital allowances position. Many candidates also included furniture and equipment in the calculation of the gain.

Only a minority of candidates took account of the effect of non-trade use of the property on the availability of rollover relief and more worryingly, only a few candidates correctly distinguished between a 'material disposal' and an 'associated disposal' for the purposes of business asset disposal relief. These are of course fundamental issues.

8. IVAN SKELHORNEProposed Damp-Proofing Business

There are two alternative ways for Ivan to operate his new business which are as a sole trader or a limited company.

A sole trader pays Income Tax (IT) and Class 4 NICs on his profits whereas a company pays Corporation Tax (CT). As a sole trader Ivan will be taxable on the full amount of business profits as calculated for tax purposes, irrespective of how much he actually draws from the business, through completion of the self-employment pages of his tax return. A company, however, is able to “shelter” funds retained in the company in the sense that IT and, if applicable, NICs are only payable when income is paid or credited.

In terms of profit extraction, a company must account for PAYE and employers’ and employees’ Class 1 NICs in respect of payments of remuneration. The gross remuneration, along with the employers’ NICs, is allowable for CT purposes. Alternatively, a company may pay dividends to its shareholders provided it has the reserves, i.e. basically retained profits, to do so, but since these are distributions of profit they are not deductible for CT purposes.

Many private company owner-managers draw only a small director’s fee from the company which does not exceed the ‘secondary threshold’ for Class 1 NICs of £175 per week and draw further amounts in the form of dividends. This may be a tax-efficient strategy in Ivan’s circumstances as illustrated below.

The calculation of the IT and NIC payable by Ivan as a sole trader is as follows:

	Workings £	IT/NIC £
Profit	65,000	
Personal allowance	<u>(12,570)</u>	
Taxable	<u>52,430</u>	
IT:		
@ 20%	37,700	7,540
@ 40%	14,730	5,892
Class 4 NICs:		
@ 6% on 50,270 – 12,570		2,262
@ 2% on 65,000 – 50,270		<u>295</u>
Total IT/NICs		<u>15,989</u>

Based on a profit of £65,000 Ivan would be left with net funds of £49,011.

The calculation of the IT and NIC payable by Ivan operating as a company is as follows if he opts to draw a small director's fee and top up with dividends.

	Workings £	IT £
Company		
Profit	65,000	
Less: Salary	<u>(9,100)</u>	
CT profit	55,900	
CT (W)	<u>(11,063)</u>	
	44,837	
Dividend	<u>(44,837)</u>	
Funds retained in company	<u>Nil</u>	
Individual		
Director's fee	9,100	
Dividend	<u>44,837</u>	
Total income	53,937	
Personal allowance	<u>(12,570)</u>	
Taxable	<u>41,367</u>	
Dividend tax:		
@ 0%	500	0
@ 8.75%	37,200	3,255
@ 33.75%	3,667	<u>1,238</u>
Total IT		<u>4,493</u>

Workings

Corporation Tax

	£
55,900 @ 25%	13,975
Less: Marginal relief	
$3/200 \times (250,000 - 55,900)$	<u>(2,912)</u>
CT liability	<u>11,063</u>

Based on a small director's fee and drawing the remaining profit after corporation tax as dividends Ivan would be left with net funds of £49,444 ($53,937 - 4,493$). This is a small saving of £433 when compared with operating as a sole trader but the additional compliance costs of running his business as a company may outweigh the saving.

However, Ivan mentioned that to cover his living expenses he only requires net income of £40,000 per year. By running his business as a company, Ivan can choose the level of profits to draw and therefore delay any tax on the undrawn profits until either it is drawn or the company is eventually wound up.

The following illustration demonstrates the position if Ivan draws only sufficient income from the company to meet his profit extraction requirement of £40,000 per year.

	Workings £	IT £
Company		
Profit	65,000	
Less: Salary	(9,100)	
CT profit	55,900	
CT	(11,063)	
	44,837	
Dividend	(33,482)	
Funds retained in company	11,355	
Individual		
Director's fee	9,100	
Dividend(W)	33,482	
Total income	42,582	
Personal allowance	(12,570)	
Taxable	30,012	
Dividend tax:		
@ 0%	500	0
@ 8.75%	29,512	2,582
@ 32.5%	0	
Total IT		<u>2,582</u>

By drawing £9,100 as director's fees and a dividend of £33,482 Ivan would achieve net income of £40,000 (£42,582 - £2,582). However, if the funds retained in the company are paid out as dividends, the amount by which his taxable income exceeds £37,700 would be taxable at the dividend upper rate 33.75%.

Conclusion

The calculations show that by trading through a company Ivan may save a small amount of tax £433 by comparison with a sole trader, however this may not be a sufficient saving to make the company route worthwhile unless limited liability were required for commercial reasons. Operation as a company entails additional administration e.g. Companies House requirements and accountancy costs which could easily exceed the modest tax saving. While further tax may be deferred based on Ivan's expected income requirements, those requirements may change for a variety of reasons. On balance, based on current profit projections operating as a sole trader may be preferable.

Tutorial Note:

It is necessary to calculate the amount of the gross dividend which when added to a salary of £9,100 will result in net income of £40,000, after income tax.

Firstly, establish the net amount of taxable dividend which is required. This is the income required of £40,000 less the salary of £9,100 less the amount which will not result in a tax liability being the remaining personal allowance £3,470 (£12,570 – 9,100) and the £500 dividend allowance, giving a figure of £26,930.

So	£40,000
Less:	
Salary	(9,100)
Unused PA	(3,470)
DA	<u>(500)</u>
Total	26,930

This dividend of £26,930 is after tax of 8.75% so needs to be grossed up for that tax

So $26,930 \times 100/91.25 = £29,512$

We then add the amount of the dividend which we have established will not result in a tax liability (being the balance of the personal allowance of £3,470 and the dividend nil rate band) to arrive at the total gross dividend.

Ideal dividend is therefore £33,482 ($29,512 + 3,470 + 500$)

This dividend results in a tax liability of £2,582.

The total of the salary of £9,100 plus the gross dividend of £33,482 less tax of £2,582 gives us income of £40,000.

MARKING GUIDE

TOPIC	MARKS
Sole trader profits not dependent on drawings	1
Suggesting typical profit extraction strategy	1
Div v salary re CT deduction & application of NIC	2
Tax payable only on withdrawals from company/possible retention of funds	1
Sole trader comp	2
CT comp with remuneration approx. £9,100 & all profits distributed	3
Calculation to provide drawings of £40k	2
Comparison of funds retained	2
Conclusion	1
TOTAL	15

Examiner's report:

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Candidates generally did well in this question, but in some cases marks were lost because the candidate started out with a gross salary of £40k which therefore did not answer the question which required net income of £40k.

Most candidates correctly calculated the tax/NIC on the sole trader model and most recommended the company route and taking a small salary and topping up with dividends. There were no marks to award for the various suggestions of other benefits which might be provided by the company as the question specifically stated that benefits in kind were not to be considered.

Obviously there are many distinctions which could be made between operating as a company or as sole trader including commercial issues such as limited liability. Many candidates engaged in detailed descriptions of these issues and should be aware that credit will only be given if comments assist in answering the question.

9. SALVO LTDCompany cessation of trade and final period losses

The cessation of trade will cause a deemed disposal of the fixtures and fittings of the business at their market value. This will result in a balancing allowance of £10,000, being the difference between the tax written down value of £12,000 and the market value of £2,000. The allowance will be added to the final period's loss of £36,000 to give an adjusted loss of £46,000.

There are then two ways under which the losses may be relieved.

Firstly, as the trade has ceased the company may make a terminal loss relief claim under s.39 CTA 2010. This is made up of the losses of the final twelve months being:

3 months to 31 December 2024	£46,000
9/12 of the year to 30 September 2024	£90,000

Relief for the two elements of the loss are treated separately with the loss of the earlier period relieved in priority to the later period.

No relief is available for the loss in the period ended 31 December 2024 since all available profits have already been relieved

The optimum use of the losses can be summarised as:

	Year ended 30.09.21 £	Year ended 30.09.22 £	Year ended 30.09.23 £	Year ended 30.09.24 £	3 months to 31.12.24 £
Profits	110,000	30,000	Nil	Nil	Nil
Note 1		(1,000)			
Note 2	(61,000)	(29,000)			
Taxable profits	49,000	Nil	Nil	Nil	Nil

Loss Memo:

	£
Trading loss year ended 30 September 2023	1,000
s.37 CTA 2010 c/b 30/9/22	<u>(1,000)</u>
Trading loss year ended 30 September 2024	120,000
s.39 CTA 2010 terminal loss maximum 9/12 so £90,000	
30/9/23	Nil
30/9/22	(29,000)
30/9/21 (Balance of £90,000 less 29,000) Note 1	<u>(61,000)</u>
Unrelieved	<u>30,000</u>
Trading loss year ended 31 December 2024 – Unrelieved (Note 2)	<u>46,000</u>

Notes

1. Nine twelfths of the loss to 30 September 2024 (£90,000) will be carried back under Terminal Loss Relief rules in s.39 CTA 2010 and set against the available profits of the three previous years on a LIFO basis.

2. The losses for the final three months are unrelieved as there are no remaining profits available to set against these losses in the three years to 30 September 2024.

Extraction of Value

Dividend

The directors may choose to distribute the profit and loss reserves of the company by way of dividends. It is unlikely that a dividend would be attractive as this would result in a substantial personal income tax liability. The majority of the funds received would be taxed at a marginal rate of 39.35%. As such it is likely that the shareholders would wish to avoid an income distribution if possible.

Liquidation

Alternatively the directors may consider placing the company into a member's voluntary liquidation.

The liquidator will distribute the assets of the company to the shareholders. Based on the information provided the tax position of each of the shareholders will need to be considered separately.

Paul Simms

As Paul will have no further involvement with the business or any related activity then any appointments by the liquidator will be treated as a capital gain in his hands. Each appointment is taxed as a separate part disposal of his shares. Assuming Paul has no other gains, it may be worth making two distributions spread over two tax years in order to utilise Paul's capital gains tax (CGT) annual exempt amounts.

Provided the distributions are made within three years of the cessation of trade then any gains arising to Paul would qualify for business asset disposal relief.

Steve Western

The tax treatment for Steve may be very different. As he wishes to continue to act as an IT consultant then there is a risk that he will be caught by the Targeted Anti-Avoidance Rules (TAAR) in s.396B ITTOIA 2005.

The effect of these provisions is to treat a distribution out of a liquidation not as a gain subject to CGT but as a dividend subject to income tax. The amount subject to income tax would be the excess of the monies received over the base cost of the shares for CGT purposes.

The anti-avoidance provisions will apply if, within a period of two years from the date of a capital distribution, Steve "carries on a trade or activity which is the same as, or similar to," that undertaken by Salvo Ltd.

Fortunately the legislation also provides that the TAAR will only be applied where "it is reasonable to assume that the main purpose, or a main purpose, of the winding up, or arrangements which include the winding up, is the avoidance or reduction of a charge to income tax." Unfortunately HMRC have not provided a formal clearance procedure and hence it is necessary to consider the key relevant facts.

The principal reasons for the winding up can be summarised as:

- a) The loss of key clients and a corresponding fall in turnover and resultant trading losses
- b) The serious ill health of the director
- c) The imminent termination of the premises lease
- d) The planned retirement of the only director

After considering the above and the fact that Steve has operated as an independent consultant for many years and will simply be continuing this role then it is unlikely that HMRC would seek to invoke the TAAR. As this is a self-assessment matter then it is recommended that full disclosure be made on the “white space” of Steve’s self-assessment tax return.

On the assumption that the TAAR did not apply then Steve will be subject to CGT. Because he holds no position with the company then he would not benefit from business asset disposal relief and would be taxed at 20% on the taxable gain in excess of his annual exempt amount, assuming he has fully used his basic rate band.

MARKING GUIDE

TOPIC	MARKS
Cessation is deemed disposal of fixed assets	1
Balancing allowance of £10,000	1
Added to final period loss to give £46,000	1
Terminal loss made up of final 12 months	1
Loss of nine months to 30 September 2024 carried back first	1
Loss of the final three months cannot be utilised	1
Distribution in the absence of liquidation will be subject to income tax	1
Consider formal liquidation	1
Paul Simms receipts as capital gains	1
Each payment is a part disposal	1
Consider spreading over two tax years	1
Business asset disposal relief will apply provided distributed within three years of cessation	1
TAAR may apply	1
Impact is to tax the receipt as a dividend	1
Only the amount in excess of the base cost would be taxed as income	1
TAAR applies if similar activity within 24 months	1
Exception where no tax motive	1
Outline reasoning why TAAR may not apply	1
Subject to self-assessment and recommend full disclosure	1
Business asset disposal relief will not apply	1
TOTAL	20

Examiner's report:

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This was a very poorly answered question.

Only a few candidates made even a passing reference to the TAAR aimed at “phoenixing” arrangements.

One point of note was that there were a large number of comments that had no relevance to the question such as s.165 gift relief claims, negligible value claims. Candidates are reminded that relevance is key to this exam.

10. ALAN DAVEYA Davey: Adjusted trading profit computation

Year ended 31 December 2024

	£	£
Profit per accounts		73,000
Add:		
Depreciation & amortisation	13,000	
Lease dilapidations – demolition costs (N1)	1,500	
Legal fees re new lease (N2)	750	
Car lease payments re Audi (N3)	1,920	
Private fuel re Audi (N4)	500	
Fuel, repairs & maintenance re Mercedes (N5)	2,500	
Travel and subsistence (N6)	-	
Software (N7)	5,000	
Keyboard lessons (N9)	800	
		<u>25,970</u>
		98,970
Less:		
Allowance for lease premium on taxed lease (N2)	683	
Mileage allowance re Mercedes (N5)	3,150	
Capital allowances (W)	<u>21,870</u>	
		<u>(25,703)</u>
Adjusted profit		<u>73,267</u>

W) Capital allowances

	£	£	£
		Main pool	Allowances
TWDV at 1 January 2024		20,000	
AIA qualifying expenditure:			
Additions per FA note	13,000		
Software disallowed (N7)	<u>5,000</u>		
	18,000		
AIA	(18,000)		18,000
Demolition costs (N1)		<u>1,500</u>	
		21,500	
WDA 18%		<u>(3,870)</u>	<u>3,870</u>
TWDV at 31 December 2024		<u>17,630</u>	
Total allowances			<u>£21,870</u>

Notes to computation

- Demolition costs are capital expenditure so disallowed but as the sound booth would have qualified for capital allowances (CAs) under the accruals basis costs are added to the main pool.
- Lease premium £20,000 for ten years. Taxed receipt (s.277 ITTOIA 2005) - $\text{£}20,000 \times ((50-9)/50) = \text{£}16,400$. Deduction available under s.61 ITTOIA 2005 under the accruals basis $\text{£}16,400/10 = \text{£}1,640 \times 5/12 = \text{£}683$. Legal fees for renewal of short lease allowed by concession but costs of new lease are capital as creating an 'enduring benefit' and are not allowable.
- CO₂ emissions for Audi exceed 50g/km therefore lease payments are restricted by 15%. Further restriction for private use of 20% $(5,000/(5,000+20,000))$. Total restriction $(\text{£}6,000 \times 15\%) + (\text{£}6,000 \times 85\% \times 20\%) = \text{£}1,920$.

4. Private fuel for Audi £2,500 x 20% = £500 disallowed.
5. Since Alan's business base would appear to be his studio it is likely that the costs of travel from home to the studio of approximately 5,000 miles would be disallowed on the basis of the decision in *Samadian v CRC* [2015] STC 763. Dr Samadian had an office at home but the FTT did not find that this was his business base, only that he had a number of places of business, one of which was his home. The costs of travel from home to two private hospitals where he held regular sessions to see patients were disallowed.

Business use deduction for the Mercedes would therefore be £1,167 ((£500 + £2,000) x 7,000/15,000) plus the business proportion of the special rate pool WDA on the car. A fixed rate deduction using ITEPA mileage rates would be £3,150 (7,000 x 45p) and therefore more beneficial.

No CAs therefore available and all motor expenses for Mercedes added back.

6. Reasonable subsistence costs are allowable where travel costs are allowable or journey is not part of normal travel – s.57A ITTOIA 2005. No disallowance.

Since Alan's purpose in renting the flat appears to have been solely for business reasons, the accommodation costs would not appear to be affected by the decision in *Tim Healy v HMRC* [2016] TC04425 and the costs should be allowable as 'wholly and exclusively' incurred for the purposes of the trade. The hotel accommodation arranged and paid for by the client, including subsistence and irrespective of his wife joining him for two weeks is not taxable. A trader is taxable only on receipts of money or money's worth and as the provision of hotel accommodation represents neither it is not taxable.

7. Expenditure on purchase of software is considered to be capital expenditure if this gives rise to an 'enduring benefit'. In practice HMRC will allow as revenue if expected economic life is less than two years. As the software is expected to be in use for several years, albeit that updating may be needed each year, this would be regarded as capital and disallowable but CAs may be claimed under the accruals basis.
8. The costs of refreshments for recording sessions may be disallowable as entertaining but it seems reasonable to suppose that while such refreshments are not provided as part of the trade they are part of the service which customers expect.
9. It is likely that HMRC would argue that while Alan's immediate purpose in taking keyboard lessons is a business one there is also a conscious or unconscious motive of personal enjoyment and that there is therefore a dual purpose in line with the decision in *Mallalieu v Drummond*, 57 TC 330 and that the costs are disallowable. Even if that were not the case the cost of training to learn a new skill is considered to be capital expenditure on the basis that the skill is of an enduring benefit to the trade.

MARKING GUIDE

TOPIC	MARKS
Disallowance of depreciation/amortisation	$\frac{1}{2}$
Allowance for dilapidations	$\frac{1}{2}$
Disallowance of demolition costs	$\frac{1}{2}$
Allowance for lease premium	$1\frac{1}{2}$
Legal costs/distinction between new lease & renewal	$\frac{1}{2}$
Restriction of lease payments Audi re CO ₂ emissions & private use	$1\frac{1}{2}$
Costs re Merc, mileage allowance claim, no CAs	2
Private fuel re Audi	$\frac{1}{2}$
Subsistence costs allowable if part of normal travel	1
Travel & hotel costs allowable	1
Software w/off disallowed & CAs claim	1
Disallowance of travel to studio	1
Occupation of holiday apartment:	
Wholly and exclusively for business/ ref to T Healy case	1
Treatment of meals	$\frac{1}{2}$
Wife's stay not relevant	1
No adjustment re hotel costs paid by customer	1
Entertaining – normal course of trade	1
Disallowance of keyboard lessons	1
Adjusted profit	1
Capital allowances comp	1
Demolition costs added to main pool/WDA claim instead of AIA	1
TOTAL	20

Examiner's report:

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This question was generally well answered and there were many elements which a properly prepared candidate should have been able to score marks on and indeed most candidates achieved better than 50%.

One fundamental problem was that many candidates considered the allowability of items in the question by reference to employees' expenses, sometimes referring to sections of ITEPA and even considering benefits in kind. For example, many considered the journey from Alan's home to his studio as 'ordinary commuting' and considered the rent of the holiday apartment in terms of whether the assignment was a 'temporary workplace'. No candidate mentioned the Dr Samadian decision with regard to the travel from home to studio and only one candidate mentioned the Tim Healy decision in the context of the holiday apartment.

11. FOODIES LLP'Partnerships with Mixed Membership'

The 'partnerships with mixed members' provisions (ss.850C – 850E ITTOIA 2005) and cover the tax-motivated allocation of business profits and losses in mixed membership partnerships.

A 'mixed membership partnership' is a partnership or limited liability partnership (LLP) that has, as members (or partners), both individuals and persons who are not individuals (for example, as in this case, a non-individual may be a company). The members will typically be the shareholders and directors of the corporate partner.

Partnerships and LLPs are seen as offering greater flexibility than other business structures, such as limited companies. In particular, the use of mixed member partnerships allows individual members to allocate profits and losses in a way that reduces their tax liabilities. Profits allocated to a corporate partner of an LLP will be subject to corporation tax at a lower rate compared with the potential 40% or 45% marginal rate of the individual members. In addition, company profits are not liable to National Insurance.

The legislation applies to arrangements where an individual member diverts all or part of their profit share to a non-individual member, usually a company, in order to reduce tax on their profit share. The company's profit share must exceed the appropriate notional profit and that individual partner must have the "power to enjoy" all or any part of the company's profit share (usually as a company shareholder) for the provisions to apply.

The "appropriate notional profit" is the rate of return on capital which is reasonably comparable to a commercial rate of interest on the company's contribution to the firm, plus consideration for services.

The rules allow the profit sharing arrangements agreed by the members to be over-ridden so that individual members are taxed on the diverted profits. The partners' profit shares are adjusted for tax purposes so that the individual is taxed on the profits that are attributable to the individual's 'power to enjoy', and the company is taxed on a smaller share to reflect the amount on which the individual is taxed. The reallocation is notional, and the rules allow for the actual profit allocated to then be extracted from the corporate partner without further tax charge.

The legislation does not apply to mixed membership partnerships in which the individual and non-individual partners are genuinely acting at arm's length and not intending to secure a tax advantage.

Impact of the rules on the current LLP structure

The two key issues to consider, in terms of the impact of the rules on the current LLP structure, are:

- 1) Whether more than the 'appropriate level of profit' is currently being allocated to the corporate partner?
- 2) Whether an individual partner has the "power to enjoy" all or any part of the company's profit share?

In terms of what is an appropriate level of profit, consideration must be given to whether the corporate partner operates a trade in its own right and, if so, whether the current profit allocation does more than provide a normal commercial return on the services provided by the corporate partner to the LLP.

Options for the business going forward

If more than a normal commercial return is being received by the corporate partner, the options for the business going forward would be:

- 1) Maintain the profit level allocated to the corporate partner, subject to a notional reallocation of the profit for tax purposes.
- 2) Reduce the profit level allocated to the corporate partner by the LLP to a normal commercial return.
- 3) The corporate member could resign.
- 4) Incorporate the business of the LLP into a company – either the corporate partner or a newly incorporated company.

MARKING GUIDE

TOPIC	MARKS
'Partnerships with mixed members'	1
'Mixed membership partnership' / typical case	1
Tax-efficient allocation of LLP profits	1
"Appropriate notional profit" / "power to enjoy"	2
Explanation of "Appropriate notional profit"	1
Effect of the rules / extract profit without further tax charge	3
Genuine arm's length arrangements	1
Does the corporate partner trade on its own account?	1
Options for the business going forward	4
TOTAL	15

Examiner's report:

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It seemed that many candidates were not familiar with this area. A good many candidates seemed unprepared for the topic; particularly the practical aspects of the calculations.

Some candidates compensated for not knowing the specifics by giving all they knew on anti-avoidance provisions; all for no marks.

12. SPILLCLEAN LTDSpillClean LtdYear ended 31 March 2025Plant and Machinery Capital Allowances computation

	Note	100% FYA (full expensing)	Main pool	50% FYA	Special rate pool	100% FYA	Non- qualifying
TWDV b/f at 1 April 2024			80,000		250,000		
Additions:							
Fixtures and fittings							
Purchase of building	1						499,998
SDLT	2						14,500
Legal fees	3						7,500
Replacement of roof	4						25,000
Formation of corridors etc	5						85,000
Solar panels	6			30,000			
Plumbing/electrical systems	7			6,500			
Electric charging point	8					10,000	
Painting etc.	9						3,000
Site management etc.	10			214		59	3,727
s.198 allocation	11		1		1		
Plant and machinery							
Blow moulding machine	12	40,000					
Granulator	13	40,000					
Moulds	14	9,000					
Assembly line	15	60,000					
Motor vehicles							
BMW 320i	16				30,000		
Tesla	17					65,000	
		<u>149,000</u>	<u>80,001</u>	<u>36,714</u>	<u>280,001</u>	<u>75,059</u>	<u>638,725</u>
							Total allowances
100% FYA	18	<u>(149,000)</u>					149,000
100% FYA						(75,059)	75,059
50% FYA				(18,357)			18,357
18% WDA			(14,400)				14,400
6% WDA					(16,800)		<u>16,800</u>
Transfer				<u>(18,357)</u>	<u>18,357</u>		
TWDV c/f			<u>65,601</u>	<u>-</u>	<u>281,558</u>	<u>-</u>	<u>273,616</u>

Structures and Buildings Allowances computation (Note 19)

	£
Formation of internal corridors and rooms	85,000
Apportionment of site management costs (£3,727 x 85,000/635,000)	<u>499</u>
	<u>85,499</u>

£85,499 x 3% x 3/12 = 641

Notes:

1. Not qualifying – expenditure on buildings (s.21 CAA 2001)
2. Not qualifying – relates to building
3. Not qualifying – relates to building
4. Not qualifying – revenue expenditure on repairs (entire asset is the building, not the roof).

Tutorial Note:

If the assumption was stated that the repairs had to be undertaken before the building could be used such that the expenditure was capital expenditure in respect of a building and therefore not eligible for plant and machinery capital allowances, credit would also be given. In this case, the structures and buildings allowance would be available.

5. Not qualifying for plant and machinery capital allowances – List A – s.21 CAA 2001.
6. Special rate – s.104A(1)(g) CAA 2001, but eligible for 50% FYA
7. Special rate – s.104A(1)(b) CAA 2001 and s.33A(5)(a) and (b) CAA 2001, but eligible for 50% FYA
8. 100% FYA – s.39 CAA 2001 and s.45EA CAA 2001, as well as ‘full expensing’ 100% FYA. Relief has been claimed under s.39/s.45EA in order to reduce the potential for a balancing charge on disposal.
9. Not qualifying – revenue expenditure on repairs
10. Preliminaries – can be apportioned across the categories of expenditure in line with *JD Wetherspoon v HMRC*. Apportioned pro-rata to total expenditure on the property of £681,500 which falls within each of the three relevant categories (£36,500 / £10,000 / £635,000 so £214 / £59 / ££3,727).
11. Agreed s.198 CAA 2001 allocations are added to the various capital allowances pools. The contractually agreed fixtures price is irrelevant for the purposes of capital allowances.
12. Expenditure on plant and machinery used in the trade – s.11 CAA 2001
13. Expenditure on plant and machinery used in the trade – s.11 CAA 2001, reduced by the amount of the grant received (s.532 CAA 2001)
14. Expenditure on plant and machinery used in the trade – s.11 CAA 2001
15. Machinery has not been delivered, so there is no unconditional obligation to pay (absent any contractual term to the contrary). Therefore, the entire expenditure cannot be included in full (s.5 CAA 2001). However, as the deposit has been paid under a contract which provides that the company will own the asset upon performance of the contract, the deposit can be included as qualifying expenditure (s.67 CAA 2001)
16. Special rate – s.104A(1)(e) CAA 2001. Car’s CO₂ emissions exceed 50 g/km (s.104AA CAA 2001)

17. 100% FYA – s.39 CAA 2001 and s.45D CAA 2001. Car's CO₂ emissions do not exceed 0 g/km.
18. Expenditure on qualifying plant and machinery is eligible for 100% 'full expensing' FYA.
19. Renovation and conversion costs qualify for the structures and buildings allowance from the date the building starts to be used for the trade. It is assumed that the apportioned site management costs would also be eligible for the allowance.

MARKING GUIDE

TOPIC	MARKS
Building – explanation	½
SDLT – explanation	½
Legal fees – explanation	½
Replacement roof – explanation	½
Formation of rooms etc. – explanation	½
Solar panels – classification and amount	½
Solar panels – explanation	½
Electrical systems – classification and amount	½
Electrical systems – explanation	½
Charging points – classification and amount	½
Charging points – explanation	½
Painting etc. – classification	½
Preliminaries – apportionment	½
Preliminaries – explanation	½
s.198 election values – classification and amount	½
s.198 election values – explanation	½
Moulding machine and moulds – classification and amount	½
Moulding machine and moulds – explanation	½
Granulator – classification	½
Granulator – amount and explanation	½
Assembly line – classification and amount	½
Assembly line – explanation	½
BMW – classification and amount	½
BMW – explanation	½
Tesla – classification and amount	½
Tesla – explanation	½
100% full expensing FYA – application of rate	½
100% FYA – charging points and low emission vehicles application of rate	½
50% FYA – application of rate	½
18% WDA – application of rate	½
6% WDA – application of rate	½
Calculation of SBA	1
TOTAL (MAX)	15

Tutorial Note:

Provided a brief explanation was given in respect of the expenditure which did not qualify for capital allowances, full credit would have been obtained. It would not have been necessary to include the non-qualifying column as shown in the examiner's answer.

The marks in this question total more than 15 as the SBA had not been introduced when the question was originally set.

Examiner's report:

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Again, the average mark for the question was good, although there were a lot of easy marks available in this question, which were not always obtained. Although brief explanations were asked for, brevity is not a substitute for accuracy and many candidates lost a significant amount of marks for technical inaccuracy in their comments. Whilst candidates often appeared to have a reasonable grasp of "what" they were doing, they did not appear to understand "why".

Specific errors worth highlighting were: significant numbers failed to deal with the preliminary expenses correctly and these were ignored by the majority who simply wrote them off as revenue expenses; many thought capital allowances were available on existing buildings and their fundamental parts; and cars were not pooled.

The assembly line was poorly dealt with in terms of when capital allowances might be due. However, many picked up on (and correctly dealt with) the grant.

13. RETRO LTD**1) Corporation Tax Computations**

Retro Ltd is an investment company for the 6 months to 31 December 2024. A new Corporation Tax accounting period commences on 1 January 2025 as the commencement of trade brings about a new Corporation Tax period.

Year ended 30 June 2025

	Note	6m to 31/12/24 £	6m to 30/06/25 £
Investment Business	1.	37,500	0
Trading Profits	5.	0	45,750
Chargeable gains on sale of investments		0	15,000
Management expenses – proportion of director's salary	4.	—	(1,500)
Taxable Total Profits		<u>37,500</u>	<u>59,250</u>

2) Corporation Tax liabilities and payment dates

	6m to 31/12/24 £	6m to 30/06/25 £
TTP	37,500	59,250
Dividends received	<u>8,000</u>	<u>2,000</u>
Augmented profits	<u>45,500</u>	<u>61,250</u>
Upper limit (£250,000 x 6/12)	<u>125,000</u>	<u>125,000</u>
Lower limit (£50,000 x 6/12)	<u>25,000</u>	<u>25,000</u>

Marginal relief applies for both periods

<u>6m to 31/12/24</u>	
£37,500 @ 25%	9,375
Less: Marginal relief	
$3/200 \times (125,000 - 45,500) \times 37,500/45,500$	(983)
	<u>8,392</u>
Due 1.10.25	
<u>6m to 30/06/25</u>	
£59,250 @ 25%	14,813
Less: Marginal relief	
$3/200 \times (125,000 - 61,250) \times 59,250/61,250$	(925)
	<u>13,888</u>
Due 1.4.26	

Notes:

1. Investment business

	Note	6m to 31/12/24 £
Property income	2.	50,000
Bank and other interest		1,000
Dividends received	3.	0
Management expenses – proportion of director's salary	4.	(1,500)
		49,500
Less: excess management expenses b/f		(12,000)
		<u>37,500</u>

2. Property income

		£
Rental income after expenses		25,000
Balancing adjustment – cessation of qualifying activity	(W)	<u>25,000</u>
Total property income		<u>50,000</u>

Working

TWDV at 1.11.24 = Nil

MV of assets = £25,000 therefore £25,000 balancing charge on cessation.

3. Dividends received by a UK resident small company are exempt (Part 9A CTA 2009).

4. £1,500 of salary relates to investment management activities and has been allocated as a management expense for the period ended 31 December 2024. Similarly, £1,500 is an allowable management expense for the period ended 30 June 2025. The amount is not a deductible trade expense as at the time it was not spent wholly and exclusively for the purposes of the trade.

Trading Profits	Note	6m to 30/06/25 £
Trading profits per accounts		150,000
Add Back:		
Depreciation	6.	10,000
Director's salary	4.	<u>3,000</u>
		13,000
Less: Capital allowances	8.	(117,250)
Trading Profits		<u>45,750</u>

6. Depreciation is disallowed by statute as this relates to an accounting adjustment for capital items.

7. The costs relating to the arrangement of an overdraft for the trade including shareholder guarantee will be treated as a deductible trade debit under the loan relationship rules.

8. Capital Allowances

Period ended 30.6.25	General Pool	Allowances
£	£	£
Additions: deemed acquisition (on cessation of rental – no AIA/FYA)	25,000	
New plant treated as acquired on commencement of trade	115,000	
AIA @ 100%	<u>(115,000)</u>	115,000
WDA @ 18% x 6/12	<u>(2,250)</u>	<u>2,250</u>
TWDV c/f	<u>22,750</u>	
Allowances		<u>117,250</u>

Tutorial Note:

The new plant would qualify for a 100% first year allowance. However, the AIA has been claimed as this reduces the potential for a balancing charge on disposal. Note that as the requirement simply asked for a computation of the taxable profits, credit would be given if the 100% FYA had been claimed.

MARKING GUIDE

TOPIC	MARKS
<u>Part 1</u>	
Recognition of two CT periods	1
P/e 31.12.24	
Investment business	
– Property business net profit	½
– Bank interest received	½
– Dividends – non-taxable	½
– Balancing charge – property business	1
– Director's remuneration	1
– Management expenses b/f	½
P/e 30.6.25	
Trade Profits	
– Depreciation	1
– Director's remuneration adjustment	½
– Bank fees	½
– Capital allowances adjustment	½
Gains	½
Management expenses	1
Capital allowances calculations	
– Acquisition of fixtures and calculation	1
– New plant inc. timing and calculation	<u>1</u>
	11
<u>Part 2</u>	
– Due dates	1
– Corporation Tax liabilities	<u>3</u>
	4
TOTAL	15

Examiner's report:

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The candidates' performance on this question was mixed. The main problem was failure to split the AP into two 6 month periods for an investment company and then a trading company with investment business. Some candidates seemed to realise their mistake in starting out as a 12 month computation and deleted their first attempt or finished their answer as a hybrid by adjusting the profit for the 12 months and then splitting between the two CAPs, with other variations along those lines.

Only a very few candidates brought in the balancing charge of £25,000 on cessation of the investment qualifying activity and a majority of candidates wrongly added back the 'personal guarantee' element of the overdraft arrangement fees. The directors' remuneration was also dealt with very variably.

14. BELLISSIMO LTDCapital Gains Tax

The CGT liability on the disposal of Maria's shares in Bellissimo Ltd will be computed by reference to the cash proceeds less the base cost of the shares. The base cost is the market value of the shares at the date of transfer to Maria in March 2019, reduced by the amount of her father's held-over capital gain. The effect of this is that the base cost will be equivalent to the original cost of the shares to her father.

The chargeable gain may be taxed at 10% by making a claim for Business Asset Disposal Relief (BADR). BADR is available if during the 24 months immediately preceding the disposal:

- Maria held shares in a "personal company" (the shareholder must own 5% or more of the voting ordinary share capital);
- Bellissimo Ltd is a "trading company";
- Maria is an officer or employee of the company until the date of disposal; and
- the cumulative capital gains for previous disposals together with the gains arising on the proposed transactions do not exceed £1 million, the lifetime limit for BADR claims.

HMRC has agreed that the company currently satisfies the conditions for "a trading company". This condition must continue to apply up to the date of sale.

Alan will not meet the conditions for BADR as he is not an employee or officer of the company and has not currently held his shares for 24 months. Therefore, if Alan is a higher or additional rate taxpayer he will be subject to CGT at 20%.

Sale of factory

Following the sale of the shares, a new lease will be granted to Bellissimo Ltd with an option for the purchaser to acquire the freehold property. The delay in the sale of the property may result in a higher CGT rate on eventual disposal. However, if the factory is sold at the same time as Maria sells her shares then *part* of the expected gain of £0.5m, may qualify for the 10% BADR rate under the "associated disposal" rules.

The conditions for an associated disposal are:

- the sale of the property is made in conjunction with a "material disposal" of the shares;
- as part of a withdrawal from the company which requires a sale of at least a 5% interest in the ordinary voting share capital;
- there are no arrangements for repurchase of the shares by Maria or a connected party; and
- the property has been owned for at least three years and is used for trading purposes by the company throughout a period of two years up to the sale of the shares.

Delaying the sale of the property may result in the loss of BADR because the disposal is not associated with the sale of the shares.

The maximum permitted period between a sale of the shares and a disposal of the property is not defined. HMRC accept that if the property is sold within 3 years of the share sale then the property may also qualify for the 10% BADR rate, if the property has only been used by the company in the intervening period.

It is proposed that the option for the sale of the freehold cannot be exercised until 5 years after the sale of the shares. Maria should explore whether the option period could be activated within a shorter period, say, 2 years.

If a BADR claim can be made on the sale of the property then the capital gain eligible for the 10% rate will require a "just and reasonable" apportionment under the associated disposal rules. The gain would need to be time apportioned to exclude the period of ownership before Maria held shares in the company (April 2018 - March 2019).

BADR may then be claimed on 50% of the time apportioned gain; i.e. by reference to the discount on market rent. However, it should be noted that the sale of the shares has already utilised a large portion of the £1 million lifetime limit so only the gain falling into the unused portion will benefit from the 10% rate.

Chargeable gains that do not qualify for BADR will be taxed at Maria's marginal CGT rate of 20%.

MARKING GUIDE

TOPIC	MARKS
Basis for computing CGT – effect of previous hold-over	1
BADR conditions	3
Trading status	1
Alan's CGT position	1
CGT implications in delaying sale of factory	2
Associated disposal rules	3
Associated disposal - Restriction of gain taxable at 10% rate	2
Earlier sale of property to access BADR	1
Lifetime allowance £1m consideration	1
TOTAL	15

Examiner's report:

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The general standard of answers to this question was reasonable. Most candidates had a good understanding of the qualifying criteria for business asset disposal relief.

A number of candidates thought that the effect of the gift hold over under s.165 would be to reduce Maria's base cost to zero rather than for her to take on her father's original base cost. Also only two candidates, when considering the associated disposal point, noted that there was a period of property ownership prior to Maria acquiring a material interest in the company which would have further restricted the business asset disposal relief.

The question stated that no calculations were required but a number of answers included detailed calculations that gained little or no credit.

15. MR MORSEDISCOVERY ASSESSMENT TAX YEAR 2021/22

The first issue is whether an assessment can be raised as the window for enquiring into the 2021/22 Self-Assessment return closed on 1 October 2023.

The Inspector has powers to raise a discovery assessment if they discover that an under-assessment has been made, no assessment has been made, or too much relief has been given provided that either:

- The loss of tax was the result of careless or deliberate behaviour by the taxpayer; or
- HMRC could not have reasonably been expected to have been aware that the assessment was insufficient on the basis of information presented by the taxpayer in the SA return or related information.

If the first condition above applied then a valid assessment may be raised within 6 years after the end of the tax year in question to recover the tax due, i.e. on or before 5 April 2028.

Careless behaviour is not defined but would include failure to take reasonable care when preparing and filing the tax return. On the information provided it seems that reasonable care was not taken to evaluate the proper tax treatment of the property sales reported in the 2021/22 return. If Mr Morse has evidence to the contrary then an appeal may be made to vacate all or part of the assessment. This must be made within 30 days of the date of the issue of the assessment. An example of reasonable care would be if Mr Morse received and followed advice from his then accountant - based on all of the facts surrounding the property acquisitions and disposals.

15 Station Road, Birmingham

HMRC proposes to treat the sale of 15 Station Road as a trading transaction. There is no comprehensive definition of what constitutes a trade and case law has established a number of key indicators ("badges of trade") to identify a trading activity, including the following.

- Profit motive: i.e. the intention for re-selling the property at a profit, rather than holding it as an investment for letting
- Systematic and repeated transactions: Repetition of transactions may indicate a trading activity. Mr Morse has confirmed that no property purchases or sales have been undertaken before or since the tax year 2021/22.
- The length of the period of ownership: Taken in isolation the short period of ownership is not conclusive evidence of a trade. However, taken with other factors it may point towards a trade motive.
- Changes to the asset: Minor repairs were undertaken which alone is inconclusive in establishing a trading motive.
- Connection with an existing trade: "Builders R Us" is a builders' merchant and might be linked with property repairs and refurbishment but in the absence of other property transactions there is no clear connection with the existing trade.
- Financing: The purchase was funded by using the overdraft facility of the business, rather than applying for a mortgage or long-term finance. This may suggest a speculative motive to realise short term profit.

If the Inspector's view is correct then any additional deductible expenses, including interest expenses should be taken into account when computing the overall taxable profit, which will be lower than the reported gain of £75,000. However, profits on a trading transaction will be subject to Income Tax at Mr Morse's marginal rate and Class 4 NICs at 2% (based on his overall trading profits from Builders R Us being above the upper limit).

214 Winston Road, Sutton Coldfield

The sale of 214 Winston Road has been agreed as a capital transaction. However, taking stock from Builders R Us to carry out refurbishment will be treated as drawings. The deemed profit on items used for refurbishment will therefore be included as part of the taxable profits of Builders R Us and based on the value of the goods "sold on the open market" less the cost to the business.

The basis used to establish value is not clearly defined and is not necessarily the selling price to Mr Morse's customers. HMRC's view is that it is the price his business would sell a similar quantity of the used stock to a third party. The amount of the adjustment proposed by the Inspector should be reviewed.

The Capital Gains Tax (CGT) base cost of the property will be increased by the additional cost of the materials and a revised CGT computation should be submitted once the market value of the stock has been established.

As the discovery assessment re-opens the 2021/22 tax year Mr Morse will be within time to make any necessary amendments, by making an appeal against the amount of the assessment within 30 days of issue.

The penalty notice has not yet been issued by HMRC. Mr Morse's compliance record and the background surrounding the under-assessment to Income Tax will need to be considered in more detail. If the disclosure of the error was prompted by HMRC and was due to careless (rather than deliberate) behaviour, the tax geared penalty may be 15%-30% of the additional tax payable. Co-operation is advised in order to minimise penalties. If HMRC regards Mr Morse's behaviour as deliberate, then it may increase the penalty to 100% of the additional tax or 70% if there is no concealment. It will be necessary to establish the facts surrounding the original disclosure of information at Mr Morse's meeting with HMRC.

Interest on overdue tax will accrue on underpayments of Income Tax and Class 4 National Insurance. Early settlement of the liabilities is recommended once the amounts are established.

CIOT MARKING GUIDE

TOPIC	MARKS
Conditions for raising a discovery assessment	2
Time limit to raise assessment	1
Careless behaviour	2
Badges of trade	7
Principles in computing income tax liability – interest	1
Withdrawal of trading stock	1½
Establishing selling cost	1½
Adjustment to CGT base cost and time limit	2
Penalties and interest	2
TOTAL	20

Examiner's report:

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Candidates were well prepared for this question, in particular the application of the “badges of trade” principles to the facts provided.

The circumstances for a valid discovery assessment were also well documented. However, the majority of candidates did not identify the correct date/time limit for raising a SA enquiry.

16. LOTHIAN ENGINEERING LTDMANAGEMENT INCENTIVE AND REWARD

There are several options for Sally to consider if she wants to share the value of a future sale of the company with the management team without awarding them shares in the company at this point.

Cash Bonus

The employees who remain with the company at sale could be paid a cash bonus in line with the increase in value of the company during the relevant period. This is a very straightforward option and would only require a simple agreement with the employees to reflect the terms under which the bonus would be calculated.

However, this is not a particularly tax efficient option, as the employees would suffer income tax and employee's National Insurance Contributions ("NICs") at their respective marginal rates – up to 47% (or 62% if it resulted in the withdrawal of the personal allowance). The company would also suffer employer's Class 1 NICs at 13.8% on the amount of the bonus. A corporation tax deduction would however be available for the amount of the bonus and employer's Class 1 NICs.

Share Options

The employees could instead be given options over shares in the company exercisable on (or immediately prior to) a sale of the company at specified price.

The option may require that the employees and the business meet performance and employment conditions.

Once exercised, the management shareholders would share in the proceeds of a sale without actual shares having to be awarded at the current time.

There is no tax charge on the grant of an option. Tax charges may arise when the option is exercised and again when the shares themselves are sold.

Non Tax Advantaged Share Options

Share options can be granted without any beneficial tax arrangements and would consequently be non-tax advantaged share options.

However, the employees would suffer income tax on the difference between the market value at the time of exercise and the amount they pay for the options. Therefore, if these are to be exercised immediately prior to a sale, all of the "value" of the options will be subject to income tax which, as above, is not likely to be tax efficient for the employees. If the options are exercised as part of the sale of the company's shares, the above amount will also be subject to both employee's and employer's Class 1 NICs.

Company Share Option Plan ("CSOP")

A CSOP is a tax advantaged share option scheme which allows employers to issue options to an employee over shares up to a value of £60,000 at the time of issue. These options cannot be issued at a discount to the market value of the shares at that time, so the employees would only benefit from an increase in the company's value from the date of issue of the options.

Provided the conditions are met, there is no income tax charge at the date of exercise. On the sale, the difference between the proceeds and the amount paid for the shares would be subject to capital gains tax. As the shares are unlikely to have been held for 24 months, Business Asset Disposal relief will not be available.

However, a CSOP scheme is unlikely to be the most appropriate option scheme to implement, on account of the relatively small value of shares which can be issued relative to the current value of the company and the likely tax rate of 20%, due to the employees not qualifying for business asset disposal relief.

EMI Share Options

An EMI share option scheme would allow the company to issue tax-advantaged share options to selected members of staff, subject to certain conditions being met by the company and the employees being given the share options.

The company appears to meet all of the conditions relating to number of employees (less than 250), gross assets (not more than £30m) etc. For the employee to be eligible, they must work for the company for at least an average of 25 hours per week, or 75% of their working time, if less. Each employee can be awarded options over shares with a market value at grant of £250,000 under this scheme. The total market value of shares under option under this scheme cannot exceed £3,000,000.

This grant of options needs to be notified to HMRC following the issue. The market value of the company's shares at the time of grant can be agreed with HMRC, in order to provide certainty.

If the option remains qualifying and is exercised within ten years, the increase in the value of the shares under option between grant and exercise is not charged to income tax, unless the exercise price agreed at grant was at a discount to the market value at the time. In this case, only any discount will be charged to income tax on exercise. If the options are exercised as part of a sale of the company, then PAYE and Class 1 National Insurance (for both the employee and the company) will be applied to any discount.

Based on the above, normally the employees will only pay capital gains tax on the increase in value of the shares from the date of grant of the option. If the EMI options were granted more than 24 months before the disposal of the shares, the employee should be able to benefit from a 10% rate of tax on the gain, under the Business Asset Disposal relief rules.

If the options are exercised prior to a sale, or within 90 days of the takeover the company should also benefit from a corporation tax deduction for the difference between the market value of the shares at exercise and the amount paid by the employee, upon exercise of the shares.

MARKING GUIDE

TOPIC	MARKS
<u>Cash Bonus</u>	
Pay bonus to reflect company performance	½
Subject to income tax and Class 1 NICs	½
Subject to employer's Class 1 NICs	½
CT deduction available for bonus and employer's NICs	½
<u>Share Options – General</u>	
Description of options	½
Relation to performance criteria	½
Exercise prior to a sale taking place	½
No tax charge on grant of options	½
<u>Non Tax Advantaged Options</u>	
Value subject to income tax	½
Difference between MV at exercise and price paid	½
Subject to NICs if exercised as part of sale	½
<u>CSOP</u>	
Limit of £60,000	½
Cannot be issued at a discount	½
Reason for not being appropriate	1
<u>EMI</u>	
Employee condition	½
Gross assets condition	½
Working time condition	½
Limit of £250,000	½
Notification of grant to HMRC	½
Agree value in advance with HMRC	½
Exercise within ten years for favourable treatment	½
No income tax charge at exercise, if not at discount	½
Any discount subject to income tax	½
PAYE/NIC if part of arrangements for sale	1
CGT on sale of the option shares	½
BADR if options/shares held for 24 months	½
CT deduction available if exercised prior to sale	1
TOTAL	15

Examiner's report:

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Answers to this question were mixed. Often, candidates did not gain 'easier' marks by not stating basic points, such as the meaning of a share option and relating its exercise to a given event or criteria. A number of candidates failed to note that Sally did not wish to give share capital to employees immediately, and so discussed an immediate gift or sale of shares to management. Similarly, a considerable proportion of candidates discussed Share Incentive Plans despite these broadly needing to be offered to all employees, rather than selected employees, as required by the scenario. Of those who identified EMI and CSOP as the relevant tax-advantaged schemes, their qualifying conditions and salient attributes were often confused. It was noted that a number of candidates referred to 'tax' being charged on the happening of certain events. It is strongly recommended that candidates are specific as to which tax may be in point at a given time, particularly where a scenario involves a number of different potential tax charges.

17. GEORGE

1) Cash basis

Year ended 31 March 2025

	£	£
Amounts received from customers		135,700
Sale proceeds from sale of desk		300
Amounts paid to suppliers	18,000	
Disallow cost of goods taken for own use	(2,000)	
Rent paid for warehouse	16,500	
Internet costs paid to suppliers	1,550	
Electricity costs paid to suppliers	4,600	
Business rates paid	2,800	
Insurance premium paid	300	
Staff costs paid	18,400	
Car running costs	1,200	
Van running costs	$\text{£}2,500 \times 4,000/6,000$	1,667
Cost of van	$\text{£}15,000 \times 4,000/6,000$	10,000
Cost of computer/warehouse/ office equipment	10,000	
Capital allowances (W1)	<u>3,276</u>	
		<u>(86,293)</u>
Taxable trade profit		<u>49,707</u>

W1)

Capital allowances	General pool £	Allowances £
Car	18,200	
WDA @ 18%	<u>(3,276)</u>	<u>3,276</u>
TWDV carried forward	14,924	

2) Accruals basis

Year ended 31 March 2025

	£	£
Sales invoices sent to customers		141,000
Sale price of goods taken for own use		8,500
Cost of sales		17,200
Rent on warehouse	$(16,500 + 1,500)$	18,000
Internet costs	$(1,550 + 85)$	1,635
Electricity costs	$(4,600 + 300)$	4,900
Business rates		2,800
Insurance premium	$(300 + (4/6 \times 400))$	567
Staff costs	$(18,400 + 31)$	18,431
Car running costs		1,200
Van running costs	$2,500 \times 4,000/6,000$	1,667
Capital allowances (W1)		<u>23,222</u>
		<u>(89,622)</u>
Taxable trade profit		<u>59,878</u>

W1)

Capital allowances	AIA	Gen pool £	PU van	Allowances £
Car		18,200		
Van			15,000	
P&M	10,000			
Disposal		(300)		
	<u>10,000</u>	<u>17,900</u>	<u>15,000</u>	
AIA @ 100%	10,000			10,000
AIA @ 100%			(15,000)	10,000 (W2)
WDA @ 18%		<u>(3,222)</u>		<u>3,222</u>
TWDV carried forward		14,678	Nil	
Total capital allowances				<u>23,222</u>

W2)

£15,000 AIA on van restricted for private use.

Business use proportion $\text{£}15,000 \times 4,000/6,000 = \text{£}10,000$

MARKING GUIDE

TOPIC	MARKS
Cash basis and accruals basis calculation of adjusted profit	½ mark for each correct number (not totals) to maximum of 12
Capital allowance computation for cash basis	1
Capital allowances computation for accruals basis	2
TOTAL	15