

Tolley[®] Exam Training

CTA ADVANCED TECHNICAL PAPER

OWNER MANAGED BUSINESSES (OMB)

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sitzings

PQ122

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Advanced Technical Pre Revision Question Bank contains 16 exam standard questions all with answers updated to Finance Act 2025. 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 2026** 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?

CONTENTS

QUESTIONS

| NO | NAME | TOPIC | MARKS |
|----|-----------------------------|--|-------|
| 1 | Blue and White Partnership | IT & NIC for partnership making a loss | 15 |
| 2 | High Cross Motor Services | Partnership computation and use of losses | 20 |
| 3 | Topaz Ltd | Availability and timing of CAs | 15 |
| 4 | Greg and Chris Leghorn | Partnership losses and LLPs | 20 |
| 5 | Trelawney Manufacturing | Capital Allowances | 15 |
| 6 | Gift Horse Ltd | Co ceasing to trade | 20 |
| 7 | Tom Hawkins | Salary sacrifice scheme | 10 |
| 8 | Alex Baxter | Treatment of expenses | 20 |
| 9 | Architects | Partnership income & gains | 15 |
| 10 | Futuora Ltd | CT Comp with R&D credits | 20 |
| 11 | Foodies LLP | Mixed Partnership | 15 |
| 12 | Spillclean Limited | Capital allowances computation including fixtures on building purchase | 15 |
| 13 | Retro Ltd | Dual status trading and investment company CT computation | 15 |
| 14 | Bellissimo Limited | Company takeover and the CGT consequences for the shareholders - BADR | 15 |
| 15 | Mr Morse | Discovery assessment | 20 |
| 16 | Lothian Engineering Limited | Management incentive and reward schemes | 15 |

INCOME TAX - RATES AND THRESHOLDS

| | 2025/26 | 2024/25 |
|--|------------------|------------------|
| 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 | 500 |
| 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 |
| Scottish Tax Rates⁽¹⁾ | % | % |
| Starter rate | 19 | 19 |
| Scottish basic rate | 20 | 20 |
| Intermediate rate | 21 | 21 |
| Higher rate | 42 | 42 |
| Advanced rate | 45 | 45 |
| Top rate | 48 | 48 |
| Scottish Tax Thresholds⁽¹⁾ | £ | £ |
| Starter rate | 1 – 2,827 | 1 – 2,306 |
| Scottish basic rate | 2,828 – 14,921 | 2,307 – 13,991 |
| Intermediate rate | 14,922 – 31,092 | 13,992 – 31,092 |
| Higher rate | 31,093 – 62,430 | 31,093 – 62,430 |
| Advanced rate | 62,431 – 125,140 | 62,431 – 125,140 |
| Top rate | 125,140+ | 125,140+ |

INCOME TAX - RELIEFS

| | 2025/26 | 2024/25 |
|--|-----------|-----------|
| | £ | £ |
| Personal allowance ⁽²⁾ | 12,570 | 12,570 |
| Married couple's allowance ⁽³⁾ | 11,270 | 11,080 |
| – Maximum income before abatement of relief - £1 for £2 | 37,700 | 37,000 |
| – Minimum allowance | 4,360 | 4,280 |
| Transferable Tax allowance for married couples and civil partners ⁽⁴⁾ | 1,260 | 1,260 |
| Blind person's allowance | 3,130 | 3,070 |
| 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 | 500 |

- 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

2026

TAX TABLES



| ISA limits | 2025/26 | 2024/25 |
|-----------------------|---------|---------|
| Maximum subscription: | £ | £ |
| 'Adult' ISAs | 20,000 | 20,000 |
| Junior ISAs | 9,000 | 9,000 |

Pension contributions

| | Annual allowance ⁽¹⁾ | Minimum pension age |
|--|---------------------------------|---------------------|
| 2025/26 and 2024/25 | £60,000 | 55 |
| Basic amount qualifying for tax relief | £3,600 | |
| Lump sum allowance | £268,275 | |

Note: (1) 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.

ITEPA mileage rates

| | | |
|---------------------------|-----------------------------|-----|
| Car or van ⁽²⁾ | First 10,000 business miles | 45p |
| | Additional business miles | 25p |
| Motorcycles | | 24p |
| Bicycles | | 20p |
| Passenger payments | | 5p |

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2025/26

| Emissions | Electric range (miles) | Car benefit % | |
|-----------------|------------------------|---------------|--|
| 0g/km | N/A | 3% | |
| 1-50g/km | ≥130 | 3% | |
| 1-50g/km | 70-129 | 6% | |
| 1-50g/km | 40-69 | 9% | |
| 1-50g/km | 30-39 | 13% | |
| 1-50g/km | <30 | 15% | |
| 51-54g/km | | 16% | |
| 55-59g/km | | 17% | |
| 60-64g/km | | 18% | |
| 65-69g/km | | 19% | |
| 70-74g/km | | 20% | |
| 75g/km or more | | 21% | + 1% for every additional whole 5g/km ab 75g/km |
| 155g/km or more | | 37% | |

| | 2025/26 | 2024/25 |
|-----------------------------------|-------------|-------------|
| Fuel benefit base figure | £ 28,200 | £ 27,800 |
| Van benefits | | |
| No CO ₂ emissions | Nil | Nil |
| CO ₂ emissions > 0g/km | 4,020 | 3,960 |
| Fuel benefit for vans | 769 | 757 |

| | | |
|--|-----------------------------------|-----------------------------------|
| Official rate of interest (assumed) | from 6 April 2025 3.75% | from 6 April 2024 2.25% |
|--|-----------------------------------|-----------------------------------|

CTA EXAMINATIONS

2026

TAX TABLES



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 on research and development.
 New zero-emission goods vehicles (until 31 March/5 April 2025).
 New cars that either emit 0g/km of CO₂ (50g/km prior to April 2021) or are electric (until 31 March/ 5 April 2026).
 Electric vehicle charging points (until 31 March/5 April 2026).

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

| | 2025/26 | 2024/25 |
|---|---------|---------|
| | £ | £ |
| '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 |

CTA EXAMINATIONS

2026

TAX TABLES



NATIONAL INSURANCE CONTRIBUTIONS

| Class 1 limits | 2025/26 | | | 2024/25 | | |
|--|---------|---------|--------|---------|---------|--------|
| | Annual | Monthly | Weekly | Annual | Monthly | Weekly |
| Lower earnings limit (LEL) | £6,500 | £542 | £125 | £6,396 | £533 | £123 |
| Primary threshold (PT) | £12,570 | £1,048 | £242 | £12,570 | £1,048 | £242 |
| Secondary threshold (ST) | £5,000 | £417 | £96 | £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% | 8% |
| Earnings above UEL | 2% | 2% |

Class 1 secondary contribution rates

| | | |
|----------------------------------|-----|-------|
| Earnings above ST ⁽¹⁾ | 15% | 13.8% |
|----------------------------------|-----|-------|

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

| | 2025/26 | 2024/25 |
|--|----------|----------|
| Employment allowance | | |
| Per year, per employer | £10,500 | £5,000 |
| Class 1A contributions | 15% | 13.8% |
| Class 1B contributions | 15% | 13.8% |
| Class 2 contributions | | |
| Rate | £3.50 pw | £3.45 pw |
| Small profits threshold (SPL) ⁽²⁾ | £6,845 | £6,725 |
| Lower profits limit (LPL) | N/A | N/A |

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 | £17.75 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% | 6% |
| 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 £187.18 and 90% of AWE |
| Statutory shared parental pay /paternity pay/parental bereavement pay/neonatal pay | For each qualifying week, the lower of 90% of AWE and £187.18 |
| Statutory sick pay | £118.75 per week |

CTA EXAMINATIONS

2026

TAX TABLES



| | | |
|--------------------------|---------|--|
| Student Loan | Plan 1: | 9% of earnings exceeding £26,065 per year (£2,172.08 per month/ £501.25 per week) |
| | Plan 2: | 9% of earnings exceeding £28,470 per year (£2,372.50 per month /£547.50 per week) |
| | Plan 4: | 9% of earnings exceeding £32,745 per year (£2,728.75 per month /£629.71 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 2025 onwards)

| Category of Worker | Rate per hour £ | Category of Worker | Rate per hour £ |
|--------------------------|--------------------|--------------------|--------------------|
| Workers aged 21 and over | 12.21 | 16–17 year olds | 7.55 |
| 18–20 year olds | 10 | Apprentices | 7.55 |

Accommodation Offset £10.66 per day

CHILD BENEFIT

| Year to 5 April 2026 | Weekly rate £ |
|-----------------------|------------------|
| First child | 26.05 |
| Each subsequent child | 17.25 |

| 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 |

HMRC INTEREST RATES (assumed)

| | |
|---|-------|
| Late payment interest | 7% |
| Interest on underpaid corporation tax instalments | 5.50% |
| Repayment interest | 3.50% |
| Interest on overpaid corporation tax instalments | 4.25% |

CAPITAL GAINS TAX

| | 2025/26 | 2024/25 |
|--------------------------------------|---------|---------|
| Annual exempt amount for individuals | £3,000 | £3,000 |

CGT rates for individuals, trusts and estates

| | | |
|---|-----|-----|
| Gains qualifying for business asset disposal ⁽¹⁾ /investors' relief ⁽¹⁾ | 14% | 10% |
| Gains for individuals falling within remaining basic rate band ⁽²⁾ | 18% | 18% |
| Gains for individuals exceeding basic rate band and gains for trusts and estates ⁽³⁾ | 24% | 24% |

- Notes:** (1) From 6 April 2026 the rate will be 18%
 (2) For disposals prior to 30 October 2024, the rate was 10% for assets other than residential property
 (3) For disposals prior to 30 October 2024, the rate was 20% for assets other than residential property

| Business Asset Disposal relief | 2025/26 | 2024/25 |
|--|------------|------------|
| Relevant gains (lifetime maximum) ⁽⁴⁾ | £1 million | £1 million |

| Investors' relief | 2025/26 | 2024/25 |
|--|------------|------------|
| Relevant gains (lifetime maximum) ⁽⁵⁾ | £1 million | £1 million |

- Note:** (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.
 (5) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million.

CTA EXAMINATIONS

2026

TAX TABLES



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 | | |

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 |

CTA EXAMINATIONS

2026

TAX TABLES



CORPORATION TAX

| Financial year | 2025 | 2024 |
|--|----------|----------|
| 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 | 2025 and 2024 |
|---|---------------|
| RDEC | 20% |
| 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% |

VALUE ADDED TAX

| | Standard rate | VAT fraction |
|------------------------------------|------------------------|--------------------------|
| Rate | 20% | 1/6 |
| Limits | 2025/26 | 2024/25 |
| | £ | £ |
| Annual registration limit | 90,000 | 90,000 |
| De-registration limit | 88,000 | 88,000 |
| 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 (from 1 March 2025)

| Engine size | Petrol | LPG | Engine size | Diesel |
|-------------------------|--------|-----|------------------|--------|
| 1400cc or less | 12p | 11p | 1600cc or less | 12p |
| 1401cc to 2000cc | 15p | 13p | 1601cc to 2000cc | 13p |
| Over 2000cc | 23p | 21p | Over 2000cc | 17p |
| Electricity rate | 7p | | | |

CTA EXAMINATIONS

2026

TAX TABLES



OTHER INDIRECT TAXES

| | 2025/26 | 2024/25 |
|--|---------|---------|
| Insurance premium tax⁽¹⁾ | | |
| Standard rate | 12% | 12% |
| Higher rate | 20% | 20% |

Notes: (1) Premium is tax inclusive ($\frac{3}{28}$ for 12% rate and $\frac{1}{6}$ for 20% rate).

Landfill Tax (pro rated for part tonnes)

| | | |
|---------------|-------------------|-------------------|
| Standard rate | £126.15 per tonne | £103.70 per tonne |
| Lower rate | £4.05 per tonne | £3.30 per tonne |

| | | |
|--|-------------------------------|-------------------------------|
| Landfill Communities Fund (LCF)⁽²⁾ | 5.3% x landfill tax liability | 5.3% x landfill tax liability |
|--|-------------------------------|-------------------------------|

Notes: (2) Relief for 90% of qualifying contributions

| | | |
|--|-----------------|-----------------|
| Aggregates Levy (pro rated for part tonnes) | £2.08 per tonne | £2.03 per tonne |
|--|-----------------|-----------------|

| | | |
|--|-------------------|-------------------|
| Plastic Packaging Tax (PPT) (pro rated for part tonnes) | £223.69 per tonne | £217.85 per tonne |
|--|-------------------|-------------------|

Climate Change Levy (CCL)⁽³⁾

| | 2025/26 | 2024/25 |
|-------------------------------|----------------|----------------|
| Electricity | 0.775p per kwh | 0.775p per kwh |
| Natural gas | 0.775p per kwh | 0.775p per kwh |
| Liquified petroleum gas (LPG) | 2.175p per kg | 2.175p per kg |
| Any other taxable commodity | 6.064p per kg | 6.064p 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 6pm 30.10.2024 | Before 6pm 30.10.2024 |
|-------------------------------|---|--|
| Cigarettes | 16.5% x retail price + £334.58 per thousand cigarettes (or £446.67 per thousand cigarettes ⁽⁴⁾) | 16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes ⁽⁴⁾) |
| Cigars | £417.33 per kg | £395.03 per kg |
| Hand-rolling tobacco | £476.83 per kg | £412.32 per kg |
| Other smoking/chewing tobacco | £183.49 per kg | £173.68 per kg |
| Tobacco for heating | £343.91 per kg | £325.53 per kg |

Notes: (3) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2025/26 (2024/25 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (11%), for LPG it is 23% (23%) and 11% (11%) for any other taxable commodity

(4) The £446.67/£422.80 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)

CTA EXAMINATIONS

2026

TAX TABLES



Alcohol Duty⁽¹⁾

From 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% | 9.61 | 1.3% to 3.4% | 9.61 |
| 3.5% to 8.4% | 21.78 | 3.5% to 8.4% | 25.67 |
| 8.5% to 22% | 29.54 | 8.5% to 22% | 29.54 |
| Stronger than 22% | 32.79 | Stronger than 22% | 32.79 |
| 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% | 9.61 | 1.3% to 3.4% | 9.61 |
| 3.5% to 8.4% | 10.02 | 3.5% to 8.4% | 25.67 |
| 8.5% to 22% | 29.54 | 8.5% to 22% | 29.54 |
| Stronger than 22% | 32.79 | Stronger than 22% | 32.79 |
| 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% | 9.61 | 1.3% to 3.4% | 9.61 |
| 3.5% to 5.5% | 10.02 | 3.5% to 8.4% | 25.67 |
| 5.6% to 8.4% | 25.67 | 8.5% to 22% | 29.54 |
| 8.5% to 22% | 29.54 | Stronger than 22% | 32.79 |
| Stronger than 22% | 32.79 | | |

Notes: (1) There are reduced rates for qualifying draught products

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

| Residential property value | From 1.4.25 | From 1.4.24 |
|----------------------------|-------------|-------------|
| >£0.5m - ≤ 1m | £4,450 | £4,400 |
| > £1m - ≤ 2m | £9,150 | £9,000 |
| > £2m – ≤ 5m | £31,050 | £30,550 |
| > £5m – ≤ 10m | £72,700 | £71,500 |
| > £10m – ≤ 20m | £145,950 | £143,550 |
| > £20m | £292,350 | £287,500 |

CTA EXAMINATIONS
2026
TAX TABLES



INHERITANCE TAX

| | | | |
|------------|--------------------|----------------------|-----|
| Death rate | 40% ⁽¹⁾ | Lifetime rate | 20% |
|------------|--------------------|----------------------|-----|

Note: (1) 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 2030 | £325,000 |

Residence nil rate bands⁽²⁾

| | | | |
|-----------------------------|----------|-----------------------------|----------|
| 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 2030 | £175,000 |

Note: (2) 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 |

STAMP DUTY/SDRT

| | | |
|--|---|------|
| Stamp duty⁽³⁾ | - On shares transferred by physical stock transfer form | 0.5% |
| Stamp duty reserve tax (SDRT)⁽⁴⁾ | - On agreements to transfer shares ⁽²⁾ | 0.5% |
| | - On shares transferred to depositary receipt schemes | 1.5% |

Notes: (3) Does not apply to UK securities traded on a recognised growth market (eg AIM).

(4) 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

CTA EXAMINATIONS

2026

TAX TABLES



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

From 1 April 2025

| Basic Rate % ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ | Residential ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ | Rate % | Non-Residential |
|--------------------------------------|-------------------------------------|--------|---------------------|
| 0 | £0 - £125,000 | 0 | £0 - £150,000 |
| 2 | £125,001-£250,000 | 2 | £150,001 - £250,000 |
| 5 | £250,001 - £925,000 | 5 | £250,001 + |
| 10 | £925,001 - £1,500,000 | | |
| 12 | £1,500,001+ | | |

- Notes:** (1) The basic rates are increased by 5% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 5% on all purchases of residential properties, subject to Note 2 below.
- (2) Companies (and certain other entities) pay 17% on purchases of residential property valued > £500,000 (subject to exceptions).
- (3) 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 be 0% on the first £300,000, for a property bought for a maximum £500,000 (5% on the excess up to £500,000). No relief is available for a property over £500,000.
- (4) 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 1), and the 17% rate (where applicable, in Note 2).

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

| Rate (%) | Net present value of rent | |
|----------|---------------------------|-----------------|
| | Residential | Non-residential |
| 0 | Up to £125,000 | Up to £150,000 |
| 1 | Excess over £125,000 | £150,001-£5m |
| 2 | N/A | Over £5m |

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

2025/26

| Basic Rate % ⁽⁵⁾⁽⁶⁾⁽⁷⁾ | Residential | Rate % ⁽⁵⁾ | 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:** (5) 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.
- (6) The 'Additional Dwelling Supplement' (ADS) of 8% 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.
- (7) 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 ⁽⁸⁾ | |
|----------|--|--|
| | Non-residential | |
| Zero | Up to £150,000 | |
| 1% | £150,001 to £2,000,000 | |
| 2% | £2,000,001+ | |

- Note:** (8) 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 2024, 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 2025 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 2025 | (90,000) | loss |
| Year to 31 March 2026 | 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 2024/25 and 2025/26 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 2025 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 2026, after which the partners will consider whether to let the retail outlet.

David joined the partnership on 1 October 2025 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 2026.

The partnership draws up its accounts to 31 March. For the year ended 31 March 2026 the partners participate in income profits and losses in the following ratios:

| | <u>Six months to</u> <u>30 September 2025</u> | <u>Six months to</u> <u>31 March 2026</u> |
|-------|--|--|
| Alex | 50% | 40% |
| Nick | 50% | 40% |
| David | 0% | 20% |

The partnership accounts for the year to 31 March 2026 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 2026.

The partners have the following adjusted total income and capital gains in 2025/26 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 2024/25 was £120,000 and allocated as follows:

| | <u>Adjusted trading profits 2024/25</u> |
|------|---|
| | £ |
| Alex | 60,000 |
| Nick | 60,000 |

The partners had no other sources of taxable income or gains in 2024/25. David has no available taxable income or gains in the three tax years prior to 2025/26 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 2026 and allocate the tax loss between the partners for 2025/26 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 2026, it incurred the following capital expenditure:
- a) A deposit of £20,000 was paid on 10 December 2025 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.
 - b) A rolling machine was purchased on deferred payment terms and was delivered on 28 February 2026. Three payments of £35,000 each were paid/fall due on 28 February 2026, 30 May 2026 and 30 August 2026.
 - c) A crane was bought on a hire-purchase contract. The crane was delivered on 21 January 2026 but was not brought into use until 2 May 2026. Under the hire purchase contract, 24 payments of £6,250 are due, payable on the first day of each month from 1 February 2026. £1,250 of each instalment relates to finance charges.
 - d) Computer equipment costing £20,000 was delivered on 25 March 2026. An invoice for it was issued on 2 April 2026 and stated as payable within 30 days. Payment was made on 1 May 2026.
 - e) A deposit of £50,000 was paid on 1 January 2026 under a contract for the supply of a polishing machine costing £200,000 in total. At 31 March 2026 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 2026 on which date the balance of the purchase price became payable.
 - f) 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 2025 | 14 January 2026 | Preliminaries |
| 50,000 | 15 January 2026 | 14 February 2026 | Base construction |
| 40,000 | 15 February 2026 | 17 March 2026 | Electrical installation |
| 100,000 | 15 March 2026 | 14 April 2026 | Assembly |
| 230,000 | 15 April 2026 | 15 May 2026 | 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 2026 and 31 March 2027.

(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 2025 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 2026 with the first accounts to be prepared to 31 March 2027 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. John Silver runs a sole trade under the name “Trelawney Manufacturing”. It is a precision engineering business based in Bristol. During the year ended 31 March 2026 the business entered into the following transactions concerning capital equipment:
- 1) On 1 September 2025 Mr Silver traded in his Range Rover Sport for a new Audi Q7. 90% of his mileage is on behalf of the Trelawney Manufacturing business and he expects the usage of the Audi to be about the same as the Range Rover. The Range Rover cost about £52,000 in March 2020 and a part-exchange allowance of £30,000 was given against the £48,000 purchase price of the Audi. Both of the cars emit 150g/km of CO₂. The tax written down value of the Range Rover was £40,500 at 1 April 2025. In addition, the tax written down value of the general pool was £63,250 at 1 April 2025.
 - 2) On 10 December 2025 the business spent £80,000 on new precision engineering equipment and scrapped some old equipment that was eight years old, receiving £5,000 from a scrap metal dealer. The equipment that was scrapped originally cost £100,000 in 2017.
 - 3) The business also disposed of two five-year-old delivery vans on 13 January 2026, receiving a part-exchange allowance of £12,000 against one new one costing £25,000. A second new van costing £30,000 was acquired under a hire purchase contract signed on 13 March 2026, when a £3,000 deposit was paid. The first of 60 monthly instalments of £450 was paid on 13 April 2026, when the van was collected from the dealer.

In addition to the above expenditure, Trelawney Manufacturing spent £551,250 on replacing the air conditioning system in the factory on 16 May 2025 and £515,000 on 18 December 2025 replacing the entire electrical wiring system in the factory.

Requirement:

- 1) **Prepare the capital allowances claim for the business for the year ended 31 March 2026 taking advantage of all available reliefs, explaining the treatment of the expenditure incurred in the year.** (10)
 - 2) **Explain, with an example, why it may be beneficial for the business to make a short life asset de-pooling election in respect of some of the equipment acquired, and which assets are excluded from such an election.** (5)
- Total (15)

6. Gift Horse Ltd commenced trading on 1 May 2019, following the purchase of a trade and related assets from a third party. The company manufactured, distributed and sold giftware from a workshop and small retail premises located on the south coast. The company is wholly owned by Mr Toms who is also the company's sole director.

The company's profitability had been in decline since 2023 and Mr Toms had accumulated an overdrawn loan account. Therefore, the company ceased to trade on 31 March 2026 and Mr Toms has subsequently operated the business as a sole trader.

The fixed assets including the lease, stock and goodwill were transferred to Mr Toms on 31 March 2026 by way of a dividend in specie. The transactions for disposals of the assets have been recorded at book value and Gift Horse Ltd had sufficient distributable reserves for a legal distribution to be made.

The book values and market values of the assets transferred at 31 March 2026 were as follows:

| | <u>Cost</u> | <u>Accumulated Depreciation/ Amortisation</u> | <u>Book Value</u> | <u>Market Value</u> |
|----------------------------------|-------------|---|-----------------------|-------------------------|
| | £ | £ | £ | £ |
| Equipment | 17,800 | (7,450) | 10,350 | 10,350 |
| Goodwill | 20,000 | (12,000) | 8,000 | 12,500 |
| Stock | 3,580 | | 3,580 | 5,000 |
| Lease | Nil | | Nil | 3,200 |
| Book value of assets distributed | | | <u>21,930</u> | |

The lease was granted to the company by a third party landlord for a 15 year term. No premium was paid and the lease had ten years remaining at 31 March 2026 (ie on its assignment to Mr Toms).

The company's draft accounts for the year ended 31 March 2026 show a profit for the year of £23,252 after the following:

- 1) A write-off of the shareholder/director's loan account amounting to £12,429; this was released by formal deed on 31 March 2026.
- 2) Depreciation of £4,326 and amortisation of £2,000.
- 3) A payment of £10,000 following a call on a guarantee in respect of a bank overdraft facility made available to Sea View Ltd, a company in which Mr Toms owns 45% of the ordinary shares. The remaining 55% is owned by a third party. Sea View Ltd is an investment company that has made significant losses on disposing of certain residential properties. Sea View Ltd paid a fee on arms-length terms to Gift Horse Ltd for entering into the guarantee at the time the loan was drawn down.
- 4) The company gave the local rowing club some flag bunting from trading stock for their annual regatta. The rowing club is registered as a Community Amateur Sports Club. The club acknowledged the company's support on the cover of the regatta programme. The cost of the bunting of £300 was written off to the profit and loss account. This stock line usually sells at a gross profit margin of 100%.
- 5) A provision for £2,500 to cover a potential claim from a customer who fell over in the shop during March 2026 and who had to be taken to hospital. The extent of any injuries has not been established and no claim has been notified by the customer. It is expected that the company's public liability insurance will be sufficient to cover any eventual settlement.
- 6) No accounting profit or loss arises on the transfer of fixed assets, goodwill or stock as all were treated as transferred at book cost.

The company's balance sheet shows Corporation Tax recoverable of £3,578 which was paid in respect of the overdrawn shareholder/director's loan account at 31 March 2025. The overdrawn loan account has continued to increase from £10,600 at that date to £12,429 at the date of release on 31 March 2026.

The tax written down value of the main pool at 1 April 2025 was £Nil.

The company has capital losses brought forward of £2,608.

Mr Toms has advised that he and his associates have no other shareholdings other than his shareholdings in Gift Horse Ltd and Sea View Ltd.

Requirement:

- 1) **Prepare the draft Corporation Tax computation for the year ended 31 March 2026, explaining your treatment of the items mentioned above, assuming all claims and elections are made to minimise the company's Corporation Tax liability.** (15)
- 2) **Comment on the tax consequences of releasing the shareholder/director's loan account from the perspective of both the company and individual.** (5)

You are not required to compute tax liabilities.

Total (20)

7. Tom Hawkins is the managing director of Hawkins Logistics Ltd, a transport company based just outside London. The company is owned by Mr Hawkins and his wife, who are also the only directors. The company has recently put in place an EMI share option scheme for four key managers out of the 20 strong workforce.

Mr Hawkins is interested in discussing other tax efficient benefits that could be provided to the company's employees and the directors. He has heard that a range of benefits can be provided to employees by way of salary sacrifice arrangements and this can be tax efficient and he is contemplating the introduction of such a scheme in 2026/27 for directors and employees. This scheme would offer the following benefits:

- 1) Provision of workplace parking.
- 2) The hire of bicycles to staff to enable them to cycle to work.
- 3) Membership of the local gym costing the company £30 a month (normal membership price is £50 a month).
- 4) An additional contribution of 5% of gross salary to the company pension scheme.

Requirement:

Explain the operation of a salary sacrifice scheme for the directors and employees of the company to provide, in particular, the benefits listed above. (10)

8. Alex Baxter, a well known local businessman in the town of Chilby, is the Managing Director and 100% shareholder of A Baxter Services Ltd. The company's principal activity is the manufacture and sale of gym equipment.

The company's accounts for the year ended 31 March 2026 include the following expenditure headings:

Marketing and advertising expenses

Included within the marketing and advertising charge in the profit and loss account are the following payments to Chilby United, the local professional football club:

- 1) £120,000, being the first annual payment in respect of a three-year sponsorship agreement which started on 1 December 2025. The sponsorship agreement includes the rights to be the main sponsor shown on team shirts and on advertising hoardings around the ground. It also contains rights over publicity in all forms of media. In addition the company is entitled to four free season tickets allowing attendance at all home matches. The season tickets are to be used by Alex to take customers and suppliers to matches with him. In addition the tickets will occasionally be made available at no charge to staff as a reward for meeting sales targets. Alex Baxter is the chairman of the football club and his son is a player at the club.
- 2) An additional sponsorship payment of £30,000 made following a fundraising appeal by the club. This was made as a contribution towards the club's purchase of a new executive 30 seat coach for carrying the team and support staff to away matches.
- 3) In March the club had been unable to pay the players wages and the company had funded the wages bill, totalling £40,000, on the club's behalf. The terms of the payment need to be established to determine whether it is an expense rather than a debtor.

Motor expenses

Included in motor expenses is a payment of £5,000 to acquire a personalised number plate with the registration number AB 1. This number plate was acquired by the company to advertise the company name when attending meetings with customers and suppliers. The plate has, however, been registered to and fixed onto Alex's car which is owned by him personally. He charges the company for business mileage.

Travelling and subsistence

Travel and subsistence costs include a payment of £6,000 for flight and hotel costs in relation to an International Gym Equipment Exhibition held in October 2025 in Portugal. The exhibition was attended by Alex and his wife, who is also a director of the company, and lasted for three days. Following the exhibition Alex and his wife took a short holiday break before returning to the UK.

Staff welfare

Staff welfare costs include a payment of £6,000 in respect of food, drink and room hire in respect of the yearly party to celebrate the company's year end. The event was held in March 2026 and was attended primarily by the company's 50 staff and their partners, but a number of customers and suppliers also attended. This event was in addition to the Christmas party.

Requirement:

Discuss the direct tax implications of the sponsorship and other costs. You are not required to comment on any VAT implications. (20)

9. Roger, Simon and Tim have traded in partnership as architects for a number of years. The partnership has prepared accounts annually to 31 March. There have been various changes in partners and in profit sharing ratios in previous years, and profits for the last few years have been shared on the following basis:

- 1) Partners salaries, per annum: Roger £6,000, Simon £18,000 and Tim £36,000.
- 2) Interest on capital at 4% per annum based on capital balances of: Roger £12,000, Simon £18,000 and Tim £27,000.
- 3) Allocation of balance to Roger, Simon and Tim in ratio 2:2:1.

On 1 February 2026, Ursula, who had previously been employed on a salary of £40,000 per annum, joined the partnership. From that date the profits were shared as follows:

- 1) Partners salaries, per annum: Roger £6,000, Simon £18,000, Tim £36,000 and Ursula £30,000.
- 2) Interest on capital at 4% per annum based on capital balances of: Roger £12,000, Simon £18,000, Tim £27,000 and Ursula £18,000.
- 3) Allocation of balance to Roger, Simon, Tim and Ursula in ratio 4:3:2:1.

The year to 31 March 2026 was a very difficult year and the accounts for the year show profits of only £30,000.

The partnership owns a freehold property which is shown on the partnership balance sheet at its current valuation of £400,000. The property was originally acquired on 1 September 1995 for £100,000 when the business was purchased from an unconnected firm. In addition, the goodwill of the partnership is included in the accounts at its original purchase cost of £100,000 although its current value is estimated at £450,000. Ursula paid Simon £45,000 for the purchase of her interest in goodwill.

Roger intends to retire from the partnership in the next two to three years, at which time his interest in the property and goodwill will be sold to the remaining partners.

Requirement:

- 1) **Calculate the Income Tax and Class 4 National Insurance Contributions liabilities of each member of the partnership for 2025/26 on the basis that they have no other sources of income other than those noted above.** (10)
 - 2) **Explain the Capital Gains Tax implications for each partner of the introduction of Ursula as a partner and the anticipated retirement of Roger. (Detailed calculations are NOT required.)** (5)
- Total (15)

10. Futuora Ltd has just completed its first period of trading from 1 May 2025 to 31 March 2026. The principal activity of the company is the research, development and design of a new hi-tech integrated animal feeder for the agricultural industry using krypton technologies which have never been used in this area before. In addition, the company also manufactures and sells more traditional feeders.

As a result of significant investment, the company has shown a loss for the period as follows:

| | | |
|-------------------------------------|---------------|--------------------|
| | £ | £ |
| Turnover | | 180,000 |
| Manufacturing Costs | 30,000 | |
| Directors' Remuneration | 10,000 | |
| Direct Wages and National Insurance | 490,000 | |
| Development Costs | 880,000 | |
| Overhead expenses | 140,000 | |
| Depreciation | 154,000 | |
| Overhead Interest | <u>56,000</u> | |
| | | <u>1,760,000</u> |
| | | <u>(1,580,000)</u> |

Further analysis shows the following:

Turnover wholly relates to the sale of traditional feeders.

| | | |
|---------------------|--------------|---------|
| | | £ |
| Direct Wages | Net wages | 285,000 |
| | PAYE | 110,000 |
| | Employees NI | 45,000 |
| | Employers NI | 50,000 |
| Number of Employees | | 28 |

Of the figure above, records show that 60% of staff costs related to research and development.

Of the two directors, who received equal pay, one only spends 20% of his time on research, the other spent 80% of his time on research.

Development costs, all relating to the new animal feeder, consisted of consumable materials £760,000 and costs of £120,000 relating to work subcontracted out to an unconnected company.

Overhead expenses consisted of general overheads £60,000, light, heat and power £48,000, of which 70% was directly attributable to the research project, and £32,000 relating to entertainment, of which 30% was directly related to the research project.

Fixed asset additions in the period and depreciation on those assets was as follows:

| | | |
|---|----------------|---------------------|
| | <u>Cost</u> | <u>Depreciation</u> |
| | £ | £ |
| Furniture (May 2025) | 40,000 | 8,000 |
| Machinery to make feeders (June 2025) | 470,000 | 85,000 |
| Mobile laboratory for use in research (July 2025) | 80,000 | 15,000 |
| Finance leased assets used for research (July 2025) | <u>200,000</u> | <u>46,000</u> |
| | <u>790,000</u> | <u>154,000</u> |

The assets held under finance leases are not classified as long funding leases. All the additions were made in the first half of the accounting period.

The company's directors and shareholders inform you that the company is currently experiencing cash flow difficulties but is still considered to be a going concern.

Requirement:

- 1) **Prepare the company's Corporation Tax computation for the period ended 31 March 2026 and explain the entitlement to any tax reliefs.** (14)
 - 2) **Explain what alternatives are available to utilise the loss arising for the period.** (6)
- Total (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 2025 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 2025 | Purchase of warehouse property | 500,000 |
| 18 July 2025 | Stamp Duty Land Tax | 14,500 |
| 18 July 2025 | Legal fees in respect of property purchase | 7,500 |
| 31 July 2025 | Replacement of roof | 25,000 |
| 14 August 2025 | Formation of internal corridors and rooms | 85,000 |
| 20 August 2025 | Purchase and installation of four solar panels | 30,000 |
| 28 August 2025 | Installation of plumbing and electrical systems | 6,500 |
| 30 September 2025 | Installation of electric vehicle charging points | 10,000 |
| 14 October 2025 | Painting, decorating etc | 3,000 |
| 30 June 2025 – 21 October 2025 | 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 2025 | Plastic blow moulding machine | 40,000 |
| 15 December 2025 | Plastic granulator | 80,000 |
| 16 December 2025 | Forming moulds | 9,000 |
| 20 March 2026 | 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 2026, when the balance was paid.

Motor vehicles (purchased new)

| <u>Date</u> | <u>Description</u> | <u>Cost</u> £ |
|------------------|---|------------------|
| 5 May 2025 | BMW 320i car – CO ₂ 159 g/km | 30,000 |
| 10 November 2025 | Tesla 3 car – CO ₂ 0 g/km | 65,000 |

The company moved into the renovated property on 1 January 2026.

The company prepares accounts to 31 March each year. The brought forward values on the company's capital allowances pools at 1 April 2025 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 2026.

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 2014 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 2015. The lease expired on 1 November 2025 and the property is now used as the company's trading premises.

The company recommenced trading on 1 January 2026 selling shoes and handbags through a retail internet site.

Below is an extract from the draft accounts to 30 June 2026 and the management accounts for the six months to 31 December 2025 and to 30 June 2026.

Profit and loss

| | Management Accounts for six months to 31 December 2025 | Management Accounts for six months to 30 June 2026 | Draft Accounts for year to 30 June 2026 |
|-------------------------------|---|---|--|
| | £ | £ | £ |
| 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 | - | <u>16,000</u> | <u>16,000</u> |
| 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 2025 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 2025.

On 1 December 2025, 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 2025 were nil. There are no related companies. The market value of fixtures and other plant in the warehouse at 1 November 2025 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 2026. (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 2025, 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 2026.

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 2031, 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 2022 of £85,000 were reported in his 2022/23 self-assessment return, which was filed with HMRC on 1 October 2023. The following items were disclosed in the Capital Gains Tax pages of the 2022/23 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 2022/23.

31 October 2026

Dear Sir

A Morse – self-assessment return – 2022/23

Mr Morse's self-assessment (SA) return for 2022/23 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 2024/25 SA return.

- 1) The property at 15 Station Road was purchased in February 2022 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 2022 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 2022. 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 2022 to 31 March 2023, 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 2022/23 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 2022/23.
- 2) He has never lived in these properties.
- 3) No additional information on the properties was provided to HMRC in the 2022/23 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 2022/23 are in line with the tax tables.

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 2006.

Over the 20 years of the company's existence, it has grown significantly. Turnover for the year ended 30 June 2026 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)

ANSWERS

1. BLUE AND WHITE PARTNERSHIP

Part 1)Capital Allowances Computation

| | | |
|------------------------|----------------|----------------|
| | £ | Claim 50% £ |
| Additions 1 April 2025 | 34,734 | |
| Less: WDA @ 6% | <u>(2,084)</u> | 1,042 |
| WDV c/f | <u>32,650</u> | |

Allocation of profits:

| | Total £ | Ward £ | Mellor £ | Horton £ |
|----------------------------|-----------------|-----------------|-----------------|----------------|
| <u>Y/e 31.3.25</u> | <u>(90,000)</u> | | | |
| 1.4.24 to 31.10.24 (3:2) | (52,500) | (31,500) | (21,000) | |
| 1.11.24 to 31.3.25 (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> |
| <u>Y/e 31.3.26</u> | | | | |
| 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 2024/25

Mr Horton:

Mr Horton is treated as commencing a trade on 1 November 2024, and any loss accruing in his first tax year is measured on a tax year basis.

His allowable loss is therefore:

| | |
|------------------------------------|-----------------|
| 2024/25 (1.11.24 – 31.3.25) | £ |
| 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> |
| Class 4 NIC (no profits) | <u>Nil</u> |

| | |
|--|--------------|
| Class 1 NIC on employed earnings (£5,000 p/m): | £ |
| £(4,189 – 1,048) @ 8% | 251 |
| £(5,000 – 4,189) @ 2% | <u>16</u> |
| | <u>267</u> |
| × 7 months | <u>1,869</u> |

Neither Mr Ward nor Mr Mellor will have any tax or NIC liabilities for 2024/25 due to losses arising in the year.

Tax and NIC Calculations 2025/26

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 2024/25 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 within 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 trade loss 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 31.3.25 | 1 |
| Profit allocation y/e 31.3.26 | 1 |
| Horton Tax Calc 2024/25 | 1½ |
| Horton NIC Calc 2024/25 | ½ |
| Ward Tax Calc 2025/26 | 1 |
| Ward NIC Calc 2025/26 | ½ |
| Mellor Tax Calc 2025/26 | 1 |
| Mellor NIC Calc 2025/26 | 1 |
| Horton Tax Calc 2025/26 | ½ |
| Horton NIC Calc 2025/26 | 1 |
| Sub total | 10 |
| <u>Part 2)</u> | |
| Loss reliefs for Ward and Mellor | 2½ |
| Early year loss relief for Horton | 1½ |
| Restrictions on loss relief | 1 |
| Sub total | 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 2026

Adjustment of loss:

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

Allocation of loss 2025/26:

| | Total £ | Alex £ | Nick £ | David £ |
|--------------------------------|------------------|------------------|------------------|-----------------|
| Loss y/e 31 March 2026 | <u>(260,000)</u> | | | |
| 6 months to 30 September 2025: | | | | |
| Loss split 50:50:0 | (130,000) | (65,000) | (65,000) | |
| 6 months to 31 March 2026: | | | | |
| 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

| | 2024/25 | 2025/26 |
|--|------------|-----------------|
| | £ | £ |
| 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 | | <u>(15,000)</u> |
| 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

| | 2024/25 | 2025/26 |
|--|------------|-----------------|
| | £ | £ |
| 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 | | <u>(50,000)</u> |
| Taxable income | <u>Nil</u> | <u>5,000</u> |
| Gains | | 100,000 |
| Less: Set off against gains s.261B TCGA 1992 | | <u>(7,000)</u> |
| Chargeable gains | | <u>93,000</u> |
| Unrelieved trade losses: | | <u>Nil</u> |

The claim to carry back trade losses against 2024/25 trading income is unrestricted.

The sideways loss claim for offset against general income in 2025/26 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 2025/26 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.

| <u>David</u> | 2025/26 |
|---|-----------------|
| | £ |
| 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 2025 to 31 March 2026 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 2025/26.

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 2024/25 or under relief for early 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 |
| Sub total | 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 |
| Sub total | 15 |
| 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 2026 falls outside the four-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 2026, 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 2026. 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 2026. 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 2026 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 2026.
- e) S.67 CAA 2001 will apply to the deposit of £50,000 paid on 1 January 2026 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 2026. However, since the machine was not delivered until 16 May 2026, 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 2027.

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 2026. The provisions of s.5(4) CAA 2001 apply to payment 5 as a certificate was given within one month of the end of the chargeable period and related (partly) to work which had become the property of the company at 31 March 2026. 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 2026, part of the work certified is likely to have been carried out on or before 31 March 2026. 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 2026, ie £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 2026 then under s.5(4) CAs will be able to be claimed in the year ended 31 March 2026.

| | <u>Summary of expenditure</u> | <u>Revenue</u> | | <u>P & M</u> | |
|--------|-------------------------------|----------------|----------------|------------------|----------------|
| | | 31.3.2026 £ | 31.3.2027 £ | 31.3.2026 £ | 31.3.2027 £ |
| 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 31.3.27 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 2027.

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 2026/27. The trading loss attributable to 2026/27 will be the loss of the nine months between 1 July 2026 and 5 April 2027 (ie the loss of the accounting period to 31 March 2027).

Thereafter each partner’s share of the allowable loss for the year ended 31 March 2028 will be attributed to the tax year 2027/28, the loss for the year ended 31 March 2029 will be attributed to the tax year 2028/29 and so on.

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

- a) “Current year/previous year” loss relief;
- b) “Early trade” 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 2026/27 can be set against any income they receive in either 2026/27 or 2025/26.

Greg has no income in 2026/27 or 2025/26 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 trade" loss relief

Start-up businesses will benefit from being able to use "early trade" 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 2026/27 through to 2029/30 inclusive.

Early trade loss relief carries a loss back against general income (before personal allowances) of the three preceding tax years, taking the earlier years first. For example, if an individual chooses to make an early trade loss claim in respect of a loss for 2026/27, the loss would first be set against their income in 2023/24, then 2024/25, then 2025/26. 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 2024/25. An early trade loss relief claim in 2026/27 and 2027/28 would enable the loss to be relieved against his earnings of 2023/24 and 2024/25 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 2023/24 to 2025/26. 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 trade loss claim and carry his loss back three years against his general income.

However, the rules for non-active partners also apply where claims are made for early trade 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 trade 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 trade 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 trade loss relief and carry the losses back against employment income of the previous three 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. TRELAWNEY MANUFACTURING

1) Capital Allowances Computation – Year ended 31 March 2026

| | General Pool £ | Special Rate Pool £ | Range Rover £ | Audi £ | Private use | Total CAs £ | |
|-------------------------|-------------------|------------------------|------------------|----------------|--------------|------------------|-------------|
| TWDV b/f | 63,250 | | 40,500 | | | | |
| Additions: | | | | | | | |
| Air conditioning | | 551,250 | | | | | |
| Wiring system | | <u>515,000</u> | | | | | |
| | | 1,066,250 | | | | | |
| AIA @ 100% (max) | | <u>(1,000,000)</u> | | | | 1,000,000 | [½] |
| | | 66,250 | | | | | |
| Equipment | 80,000 | | | | | | |
| Delivery van | 25,000 | | | | | | |
| Delivery van deposit | 3,000 | | | | | | [½] |
| Audi | | | | 48,000 | | | |
| Disposals: | | | | | | | |
| Range Rover | | | (30,000) | | | | [½] |
| Scrap proceeds | (5,000) | | | | | | [½] |
| Delivery vans | <u>(12,000)</u> | | | | | | [½] |
| | 154,250 | <u>66,250</u> | <u>10,500</u> | <u>48,000</u> | | | |
| Balancing allowance | | | <u>(10,500)</u> | | x 90% | 9,450 | [½] +[½] |
| WDA @ 18% | (27,765) | | | | | 27,765 | [½] |
| WDA @ 6% | | (3,975) | | | | 3,975 | [½] |
| WDA @ 6% | | | | | | | [½] |
| | | | | <u>(2,880)</u> | x 90% | 2,592 | [½] +[½] |
| TWDV c/f | <u>126,485</u> | <u>62,275</u> | | <u>45,120</u> | | | |
| Total allowances | | | | | | <u>1,043,782</u> | |

Explanation of treatment of expenditure

The **air conditioning system** and the **electrical wiring system** are **integral features**. [½]

Repairs and renewals expenditure may be treated as a **deductible revenue expense**. However, under s.33B CAA 2001 where either **the whole or more than 50% of an integral feature is replaced in a 12-month period**, a revenue deduction is not allowed and **the expenditure instead must be treated as capital expenditure** and allocated to the **special rate pool (SRP)**. [1]

As the SRP qualifies for a **lower rate of writing down allowance (WDA) of 6%**, the available **Annual Investment Allowance (AIA) of £1,000,000 should be claimed against this expenditure in priority** to expenditure added to the general pool, in order to **accelerate relief**. [½]

The excess expenditure of £66,250 in the SRP is written down at 6%.

No AIA remains available to set against the expenditure on the vans. The **expenditure of £25,000 in respect of the first van is allocated to the general pool** and written down at **18%**. [½]

The second van costing £30,000 was acquired under a **hire purchase** contract, but as it is **not brought into use by the year end date**, only the 10% deposit of **£3,000** qualifies for CAs in the year ended **31 March 2026** by virtue of s.67 CAA 2001. This expenditure is again allocated to the general pool. [1]

Tutorial Note:

Expenditure on an asset acquired under hire purchase is incurred for capital allowances purposes at the time the asset is brought into use. If an initial payment is made in an accounting period before the asset is brought into use, capital allowances can be claimed on that amount in the earlier accounting period. Capital allowances on the balance will be claimed when the asset is brought into use.

No AIA remains available to set against the expenditure on the equipment. This **expenditure on the equipment is allocated to the general pool** and written down at **18%**. [½]

The Audi emitting 150g CO₂/km would normally be added to the SRP. However **as there is private usage the car is de-pooled and only the business use proportion of the WDA is deductible**. [½]

2) Short life asset de-pooling election

Where a SLA de-pooling election is made **the asset does not enter the general pool**. If it is **sold or scrapped before the 8th anniversary of the end of the chargeable period in which it was acquired**, a **balancing adjustment will arise**, which would not be the case if the asset was in the general pool. [1]

This means that the **total allowances given over the period of ownership will be brought into line with the economic cost of the asset to the business**. Tax relief will generally be faster than if the expenditure is pooled as **a balancing allowance will be obtained if the asset is sold at a loss or scrapped**. [1]

If the **new equipment is likely to be disposed of for considerably less than its tax written down value** (like the old equipment which was scrapped in the year) then it would be **advantageous to make a SLA de-pooling election** and dispose of the equipment before the 8th anniversary of the end of the chargeable period in which it was acquired, ie by 31 March 2034. [½]

Tutorial Note:

The election should be made by the anniversary of 31 January following the end of the tax year in which the accounting period in which the equipment was acquired ends. For example, if expenditure is incurred in the year ended 31 March 2026, an election must be made by 31 January 2028.

For example, if the precision equipment costing £80,000 is disposed of for (say) £5,000 in the year ended 31 March 2034 there would be a balancing allowance as follows:

| | TWDV | CAs | |
|--------------------------------------|-----------------|---------------|-----|
| | £ | £ | |
| 10.12.25: Precision equipment – cost | 80,000 | | |
| WDA – y/e 31.3.26 – 18% | <u>(14,400)</u> | 14,400 | |
| | 65,600 | | |
| 7 years to 31.3.33 – 18% | <u>(49,248)</u> | 49,248 | |
| Tax WDV at 31.3.33 | 16,352 | | |
| Scrap Proceeds – say | <u>(5,000)</u> | | |
| | 11,352 | | |
| Balancing allowance | <u>(11,352)</u> | <u>11,352</u> | |
| Total allowances £(80,000 – 5,000) | | <u>75,000</u> | [1] |

Should the equipment **not be disposed of by 31 March 2034**, the **tax written down value** of the equipment (£16,352 less a further 18%) would be **transferred to the general pool at the end of the 9th writing down period**. [½]

The **exceptions** to SLA treatment are listed in s.84 CAA 2001 and include most **motor cars, leased assets, assets used partly for private purposes, long-life assets and integral features**. [1]

CIOT MARKING GUIDE

| TOPIC | MARKS |
|---|-----------|
| <u>Part 1)</u> | |
| Capital allowance computation | 5½ |
| Explanation of treatment of expenditure: | |
| Identifying expenditure on integral features | ½ |
| Application of 50% rule | 1 |
| Allocation of AIA to integral features | ½ |
| Treatment of Van 1 | ½ |
| Treatment of Van 2 | 1 |
| Treatment of equipment | ½ |
| Treatment of Audi | ½ |
| Sub total | 10 |
| <u>Part 2)</u> | |
| Treatment if SLA election made | 1 |
| Explanation of advantages | 1 |
| Application to scenario | ½ |
| Any suitable example showing benefit of de-pooling as required in Q | 1 |
| Position if asset not sold | ½ |
| Exceptions to SLA treatment | 1 |
| Sub total | 5 |
| TOTAL | 15 |

Examiner's report:

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This was a straightforward question involving the calculation and explanation of capital allowances for a sole trader.

The computational aspect was generally well answered with the most common error being the inclusion of the second van acquired on hire purchase which had not been brought into use at the end of the period. Several candidates failed to restrict the use of the cars to 90% business usage as is required for unincorporated businesses. A poor layout of their computation also caused some candidates to make unnecessary errors.

Many candidates lost easy marks for not explaining the treatment of the expenditure. A common error was to state that the rewiring costs would be treated as repairs despite the statutory 50% rule which requires such expenditure to be treated as integral features.

The election to de-pool short life assets may be an important planning opportunity for many businesses as the 18% writing down allowance on a reducing balance basis could mean an asset takes many years to obtain relief for expenditure. Many correctly referred to the advantage of a balancing allowance resulting on disposal compared to inclusion in the general pool, but some called this a balancing charge. Easy marks were lost by not including an example as required by the question.

6. GIFT HORSE LTD

1) Draft corporation tax computation and corporation tax liability

Year ended 31 March 2026

| | Notes | £ | £ | |
|--------------------------------------|-------|-----------------------|-----------------------|-----|
| Profit before tax | | | 23,252 | |
| Add: | | | | |
| Participator's loan write off | 1 | 12,429 | | [½] |
| Depreciation | | 4,326 | | [½] |
| Amortisation | 2 | 2,000 | | [½] |
| Guarantee payment | 3 | 10,000 | | [½] |
| Provision for claim | 5 | <u>2,500</u> | | [½] |
| | | | 31,255 | |
| Trading profits | | | 54,507 | |
| Chargeable gain | 6 | 592 | | [½] |
| | | | 55,099 | |
| Loss on goodwill | 2 | <u>(7,500)</u> | | [½] |
| Taxable total profits | | | <u>47,599</u> | |
| Corporation tax at 19% | | | 9,044 | [½] |
| Less: S.455 tax recoverable | | | <u>(3,578)</u> | [½] |
| CT payable 1 January 2027 | | | <u>5,466</u> | |

Capital allowances

| | | £ | |
|------------------------------|--|-----------------|-----|
| TWDV b/fwd | | Nil | |
| Less: disposals @ book value | | <u>(10,350)</u> | |
| Balancing charge | | <u>(10,350)</u> | [1] |

Mr Toms and the company are **connected** so they should make a **joint election to transfer assets at tax written down value**. This will avoid the balancing charge. [1]

Notes:1. Participator loan write off

No deduction is available to the company for the write off or release of a participator's loan due to the restriction imposed by s.321A CTA 2009. It is assumed that the NI on the write off has been provided for by the company and deducted in the accounts. [1]

2. The amortisation of goodwill

This is **not allowable** under the corporate intangibles rules. [½]

The goodwill will be treated as **transferred at market value**. The loss on the transfer is the **difference between the market value and the cost** ie £7,500 (12,500 – 20,000). This is treated as a **non-trading debit**. [1]

3. Guarantee payment

The payment of a guarantee on behalf of Sea View Ltd is **not deductible** under the loan relationship rules as **the original guarantee is not a related transaction to a loan relationship entered into by Gift Horse Ltd**. [1] There is **no potential to establish a capital loss** for the guarantee payments under the loans to trader provisions of s.253 TCGA 1992 as **Sea View Ltd is not a trading company**. [½]

Tutorial Note:

Once the guarantee has been paid, Sea View Ltd owes £10,000 to Gift Horse Ltd. However, it is likely that no relief would be available if Gift Horse Ltd were to write off or release the debt as the loan is likely to be considered to be made for an unallowable purpose ie in respect of a personal interest of a director.

4. Gift of stock

The purpose of the transfer of stock to the local rowing club is not entirely clear. If Mr Toms regarded this as **sponsorship** the **cost of the stock should be allowable** where the advertising benefit is commensurate with the cost to the company. Alternatively, **the cost will be allowed as it is a gift to a Community Amateur Sports Club.** (s.105 CTA 2009). [1]

5. Provision for injury claim

The provision is **not made in accordance with FRS 102** which requires that a provision should be recognised when:

- a) There is an **obligation** (legal or constructive) at the reporting date as a result of a past event;
- b) It is **probable that a transfer of economic benefits will be required** to settle the obligation; and
- c) A **reliable estimate** can be made of the amount of the obligation.

As none of the above applies and Mr Toms has advised that in the event a claim is settled it will be **covered by public liability insurance, no deduction is available.** [1½]

6. Stock

A **joint election** will be made by the company and Mr Toms under s.167 CTA 2009 and s.178 ITTOIA 2005 respectively to **transfer stock at the amount realised on sale, being book value.** This **avoids the requirement that stock is deemed to be sold at market value** on the discontinuance of a business. [1]

7. Chargeable gain on assignment of lease

The **assignment of the lease is deemed to be made at market value** i.e. £3,200 (s.17 TCGA 1992). After **offset of capital losses brought forward** of £2,608, there is a chargeable gain of £592. [1]

Tutorial Note:

The requirement for Part 1) of this question asked for all claims and elections to be made which minimised the company's Corporation Tax liability. It did not therefore require you to consider whether or not such claims were beneficial when taking into account Mr Toms' personal position.

2) Tax consequences of releasing the shareholder/director's loan account**Tutorial Note:**

Mr Toms has obtained an employment related loan and as there is no indication that interest has been paid he will be assessed on a taxable benefit for 2025/26 at the official rate of interest.

The company will be required to account for Class 1A NIC on the benefit assessed at the official rate of interest.

The shareholder/ director

The release of the amount due to the company will be treated as **a distribution** (s.415 ITTOIA 2005). **[1]** As Mr Toms is a participator in the company, for income tax purposes **the distribution rules take precedence over any potential charge as earnings** (s.189(1)(b) ITEPA 2003). **[1]** The first £500 of dividends received in a tax year is taxed at 0%. The balance is taxed at 8.75% within the basic rate band, 33.75% within the higher rate band and at 39.35% above the higher rate limit. **[1]**

Company

Unless Mr Toms has unequivocal evidence that the loan was made to him in his capacity as a shareholder rather than as a director of the company, HMRC's view is that **the company will be required to account for primary and secondary Class 1 NI contributions**, (notwithstanding that the amount is treated as a distribution for income tax purposes). **[1]**

As noted under in Part 1, **a close company cannot obtain a deduction on a write-off or release of a loan made to a participator** where the loan has resulted in a charge under the loan to participator rules (s.321A CTA 2009). The s.455 tax previously paid by the company in respect of the loan will be repaid by HMRC. **[1]**

CIOT MARKING GUIDE

| TOPIC | MARKS |
|--|-----------|
| <u>Part 1)</u> | |
| Adjustments to profits | |
| – Participator loan write off | ½ |
| – Depreciation | ½ |
| – Amortisation | ½ |
| – Guarantee payment | ½ |
| – Provision for claim | ½ |
| – Chargeable gain | ½ |
| – Loss on goodwill | ½ |
| – Corporation tax | ½ |
| – Offset of s.455 liability | ½ |
| Explaining the following: | |
| – Potential balancing charge/ s.266 CAA 2001 election | 2 |
| – Participator loan | 1 |
| – Disallowance of amortisation of goodwill | ½ |
| – Transfer of goodwill | 1 |
| – Guarantee payment | 1½ |
| – Gift of stock | 1 |
| – Provision/ non-compliance with FRS 102 | 1½ |
| – Joint election to transfer stock at book value s.167 CTA 2009/ s.178 ITTOIA 2005 | 1 |
| – Capital gain on assignment of lease | 1 |
| Sub total | 15 |
| <u>Part 2)</u> | |
| Release of shareholder/director's loan | |
| – Treated as a distribution | 1 |
| – In priority to earnings | 1 |
| – Tax charge | 1 |
| – NIC consequences for the company | 1 |
| – Recovery of s.455 corporation tax/ disallowance of write off for CT | 1 |
| Sub total | 5 |
| TOTAL | 20 |

Examiner's report:

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This question required the computation of a corporation tax liability in a final period up to the date of disincorporation and the taxation of a loan to a participator of a close company.

The computation of taxable profits was generally well attempted. The majority of candidates demonstrated a good understanding of the tax treatment of the sale of individual classes of assets and identified elections to transfer plant and machinery and stock at tax written down value and book value respectively.

Common problem areas included:

- The offset of capital losses against IFA gains or trading profits generally.
- Claiming a recovery of s.455 tax against taxable profits.
- Identifying the statutory CT disallowance on a write off or release of a loan to a participator.
- Adjusting for profit on trading stock provided to a CASC.

In the second part of the question most candidates identified the recovery of the penalty tax and priority for taxing the amount as an income distribution in the hands of the individual. Some candidates covered the NIC issues.

7. TOM HAWKINSOperation of salary sacrifice scheme to provide a range of employee benefitsStructuring a salary sacrifice scheme generally

A salary sacrifice happens when **an employee gives up the right to receive part of the cash pay due** under his or her contract of employment. Usually the sacrifice is made in return for the employer's agreement to **provide the employee with some form of non-cash benefit**. The "sacrifice" is achieved by varying the employee's terms and conditions of employment relating to pay. [½]

Salary sacrifice is a matter of employment law, not tax law. Where an employee agrees to a salary sacrifice in return for a non-cash benefit, they give up their contractual right to future cash remuneration.

Where there is a salary reduction that is in writing, and this has been properly implemented with **some degree of permanence** such that the employee cannot give notice to revert to original level, then **the benefit will not be treated as earnings**. Therefore the **employee will not pay Class 1 NICs** in respect of the taxable amount. [½]

Note that **if the employee has the right to give up the benefit at any time** and revert to the original (higher) cash salary, **the non-cash benefit may be taxable as "earnings"** within S.62 ITEPA 2003. [½]

It is important that the employee who is entering into a salary sacrifice arrangement agrees to vary the employment contract well in advance of the date when the first payment under the new arrangement is due to be made. If the contractual changes have not been completed by that date, the terms of the previous contract continue to be in force. This is because the employee is still entitled to receive, and is therefore taxable on, the previous higher salary (even though the smaller, post-sacrifice amount is paid).

S.69A ITEPA 2003 (**the optional remuneration legislation**) **limits the tax and NIC savings that can be achieved** by way of salary sacrifice arrangements. [½]

Where the legislation applies, the **actual amount taxed** in respect of the provision of a benefit by way of salary sacrifice is **the higher of the salary that the employee would have received or the amount taxable under the benefit rules**. This higher amount **will be subject to Class 1A NICs**. Therefore the employer will not make any saving (unless the actual cost of providing the benefit is less than the salary given up). [1]

As stated above, **the employee will not pay Class 1 NICs** in respect of the taxable amount. This legislation **does not apply to the provision of cycles, cyclist safety equipment and low emissions cars, tax-free employer provided childcare and contributions to registered pension schemes**. In these cases, the taxable amount (if any) will be determined by the normal benefit rules. [½]

Turning to the specific benefits being considered by Hawkins Logistics Ltd:

a) Provision of workplace parking

There is an **exemption from income tax and national insurance contributions** in respect of the provision of workplace parking. This covers not just a space in the employer's car park but also extends to the costs of a season ticket at a public car park close to work. [½]

However, **a salary sacrifice arrangement is not particularly tax efficient in respect of this benefit**. [½] Car parking is not one of the benefits excluded from the optional remuneration rules. As noted above, the amount subject to tax and Class 1A NICs will

be the higher of the salary given up and the amount of the taxable benefit, which in this case is deemed to be nil. So, **the taxable amount is the salary given up**. The employee (but not the employer) **would have an NIC saving but income tax would still be payable**. The benefit would need to be reported on Form P11D for 2026/27. [1]

b) The hire of bicycles to staff

If an employer lends or hires a bicycle or cycling safety equipment to an employee, there is an **exempt benefit if the bicycles are available to all employees and the bicycles are used mainly for 'qualifying journeys'**. A journey only counts as a qualifying journey if all or part of the journey is between home and workplace, or all or part of the journey is between workplaces. [1]

The exemption from tax and NICs for loaned or hired cycles only applies where there is no transfer of the property in the cycle or equipment in question. This means that the exemption will cease to apply if ownership is transferred to an employee. Similarly, the exemption will not apply if any agreement builds in from the outset an automatic transfer of ownership to the employee at the end of the hire period. Careful drafting of the cycle hire agreement is therefore required.

Where an employee gives up salary to be provided with a bicycle in a situation which meets the above conditions, **the optional remuneration rules do not apply**. Under this arrangement **the employee will pay less tax and NIC as the benefit is exempt from both**, such that tax and NIC is only payable on the cash earnings received. **The employer also saves employer NIC at 15% on the salary sacrificed** which represents a considerable saving. [1]

It is common to transfer the cycle to the employee after say 12 or 24 months at its residual value, for which HMRC have issued some guidance. Provided market value is paid by the employee there would again be no taxable benefit on the transfer to the employee.

c) Provision of membership of local gym

The sacrifice of salary for the gym membership is again **not particularly tax efficient**. The **higher of the salary given up and the cost to the employer of the payment of membership on behalf of company directors or employees would be taxable and Class 1A NICs at the rate of 15% would be due** on this amount. Again, the employee (but not the employer) would have an NIC saving but income tax would still be payable and the benefit would need to be reported on the P11D for 2026/27. [1]

The taxable benefit amount to compare to the salary given up is the cost to the employer of providing the facilities for the employee. The amount "contributed" by the employee as a salary sacrifice would not reduce the value of the benefit. The fact that the full price of membership is £50 a month is irrelevant and the £20 a month "discount" is not a taxable benefit. Therefore **if the employee is required to give up salary of less than £50 per month there will be a saving for the employee as if they had joined the gym directly they would have incurred any extra cost from taxed earnings**. [½]

d) Sacrifice of salary in return for 5% pension fund contribution

Where the employee sacrifices his or her salary in return for a 5% pension fund contribution, **the optional remuneration legislation does not apply**. As with the hire of bicycles, **the employee will pay less tax and NIC** as the contribution would not be a taxable benefit in kind. The **employer again saves NIC at 15%** on the salary sacrificed. [½]

For higher earning employees and directors the 5% contribution, together with other pension contributions by the employee and employer, would need to be compared with the £60,000 **annual allowance** as pension input in excess of this limit may give rise to an annual allowance charge. Note however that unused annual allowance from the

previous three years may be added to the £60,000 annual limit provided the individual was a member of a pension scheme in those earlier years.

If there are any very high earning employees or directors, most likely Mr Hawkins, the £60,000 annual allowance may be restricted. The restriction applies where 'threshold income' (net income less personal pension contributions) exceeds £200,000 and 'adjusted income' (income plus employer pension contributions) exceeds £260,000. In which case, the annual allowance is reduced by £1 for each £2 of excess income, subject to a minimum allowance of £10,000. [½]

Tutorial Note:

The model answer provided by the examiner is a longer and more detailed answer than candidates would be expected to produce in the time available for a 10 mark question. Good marks could be obtained on this question by explaining the key points, as indicated by the marking guide. A general explanation of salary sacrifice should be given as well as consideration of the specific benefits listed. Credit would be given for any relevant points made.

CIOT MARKING GUIDE

| TOPIC | MARKS |
|---|-----------|
| Salary sacrifice: | |
| General explanation | ½ |
| Identifying NIC saving | ½ |
| If employee has right to give up benefit then taxable on previous higher salary | ½ |
| Optional remuneration legislation may restrict benefit | ½ |
| Implications of optional remuneration legislation | 1 |
| Where optional remuneration legislation does not apply | ½ |
| Workplace parking: | |
| General exemption from IT and NIC | ½ |
| Application of salary sacrifice | 1½ |
| Company bicycles: | |
| Conditions for exemption | 1 |
| Position under salary sacrifice | 1 |
| Gym membership: | |
| Position under salary sacrifice | 1 |
| Potential employee saving | ½ |
| 5% pension fund contribution: | |
| Position under salary sacrifice | ½ |
| Potential restriction of the annual allowance | ½ |
| TOTAL | 10 |

Examiner's report:

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This question was about the proposed introduction of a salary sacrifice scheme for directors and employees.

Many candidates overlooked the first part which required an explanation of how such schemes should be structured, in particular the need to vary the employee's contract of employment.

The workings of the cycle to work scheme and tax relief for pension contributions were generally well known, including the £60,000 pension input limit. Most candidates identified that the gym membership would be taxable but several failed to explain the value of the amount chargeable.

Other candidates took the opportunity to outline other tax-efficient benefits which was not required by the question. Other candidates provided an outline of PAYE and P11D procedures and again no marks were awarded for this.

8. ALEX BAXTER

PAYMENTS ANALYSED TO MARKETING AND ADVERTISINGSponsorship Agreement

Sponsorship is often a form of advertising. A business tries to obtain benefits for its products, reputation and public image by association with a popular or successful event or person. **Sponsorship costs are generally allowable in arriving at the profits of a trade or profession.** [½]

In accordance with s.54 CTA 2009 **no deduction is allowed for expenses that are not incurred wholly and exclusively for the purposes of the trade.** [½]

In addition **relief is not available for capital expenditure or expenditure which is specifically disallowed** (e.g., business entertaining). [½]

The concern therefore with regard to the contractual payments is the personal relationship between Alex, his son and the Club. **HMRC may attempt to argue that, because of this personal connection with the Club, the payment was not made wholly and exclusively for the benefit of the trade but had a duality of purpose.** If HMRC can show that there was any form of non-business purpose, **no deduction will be due.** [1]

It would be necessary to review any documentation either internal to the company or between the company and the Club prior to entering into the sponsorship agreement.

HMRC would normally consider (as detailed in its Business Income Manual) any or all of the following:

- Correspondence/Contracts.
- Evidence of company's purpose/motive.
- How the sponsorship is exploited.
- What alternatives for advertising/marketing were considered.
- Business Plan. [½]

The key issue on duality of purpose revolves around the requirement to have an immediate and direct benefit of any payment. HMRC has over the years considered the "remoteness" test (*Union Cold Storage Ltd v Jones*) and the "incidental" benefit test (*Bentleys, Stokes & Lowless v Beeson*).

In another case, (*Interfish Ltd v HMRC*), the Tribunal found that in such circumstances the main purpose was for the benefit of the Club and not the company. [½]

Timing of Deduction

The £120,000 annual contractual payment made on 1 December 2025 **should be spread over the 12-month period to which it relates** being 1 December 2025 to 30 November 2026. It would appear therefore that **the accounts have not been prepared in accordance with GAAP** and as a result **an adjustment will be required.** This will therefore result in an **add-back of £80,000 being 8/12ths of the payment for the period falling after 31 March 2026.** [1]

Entertainment

It would appear that the sponsorship agreement includes the rights to 4 free tickets to all home games that are primarily intended to be used for entertaining clients/suppliers.

In accordance with s.1298 CTA 2009, the general rule is that **no deduction is allowed for the provision of entertainment.** An amount in relation to this element of the cost

will need to be ascertained. For example, was a value attributed to this element of the sponsorship in any correspondence/documentation? What would a season ticket normally cost? [½]

Any cost relating to staff entertainment is allowable under s.1299 CTA 2009. [½]

In relation to the tickets given as a reward for meeting sales targets, **a taxable benefit is likely to arise.** [½]

The benefit would be calculated on **the estimated and apportioned value of the tickets.** [½]

A benefit is a trivial benefit if the cost of providing the benefit does not exceed £50. However the benefit cannot be provided in recognition of particular services performed by the employee. **As the tickets are a reward for meeting sales targets**, ie provided in recognition of particular services performed by the employee, **the trivial benefit rules will not apply.** [½]

Tutorial Note:

If the Managing Director receives free tickets to home games by virtue of his son being a player, a Tribunal case has held that there would be no P11D benefit in respect of the Managing Director's apportioned share of the cost of the company's box. (*Frank Hudson Transport Ltd v HMRC*).

Additional Sponsorship Payment

The profit and loss includes a payment of £30,000 as a contribution to the purchase of a capital asset, the new team coach. In accordance with s.53 CTA 2009 no deduction is allowed for items of a capital nature. However, as far as the company is concerned, **this is a further sponsorship payment and is not capital in nature.** [½]

The payment is in addition to the sponsorship agreement and therefore needs to be considered on its own merits. The issue to address is if **the payment is wholly and exclusively for the benefit of company's trade.** [½] In particular it is necessary to consider **what extra benefits have been derived for the company** by this additional payment over and above the normal benefits derived from the contractual agreement. [½]

Loan to meet players' wages

The payment of £40,000 to meet the players' wages was the settlement of a club liability and could therefore represent a debt due back to the company. It will be necessary to ascertain if there was any expectation of repayment from the Club.

If any **repayment of the loan is not expected**, then the above issues relating to the **wholly and exclusively** test will again need to be considered. [½] If **repayment is expected**, then the **payment should be treated as a loan and should be capitalised.** [½]

It will then be necessary to determine whether it is a trading or non-trading loan under the loan relationship legislation. **It would not appear that the loan was made for trading purposes.** [½]

The company could then consider the recoverability of the loan and may decide it should be written off. It would then be necessary to refer to the loan relationship legislation and **consider if the "connected person" or "unallowable purpose" rules apply.**

In order to consider the connected person rules, it would be necessary to ascertain who has control of the Club. This would require details of the share structure and other issues affecting control. [½]

In relation to the unallowable purpose rules it would be necessary to consider **if the loan was made otherwise than for its business or other commercial purpose or for a tax-avoidance purpose**. If either of these apply **the write-off would not be allowable**. [½]

Finally it should be considered if the **loan to participator legislation could apply** due to the personal connection of Alex Baxter. He is a **participator in the company** and if the Club is **unincorporated** this point would need to be considered. [½]

OTHER EXPENSES

Motor expenses - Private number plate

The value of a personalised car number plate lies in the right to use a particular combination of numbers and letters. This right is **an intangible asset** which is separate both from the actual plate and from the vehicle to which it is attached. [½]

The cost should not be written off immediately to the profit and loss account but should have been capitalised. The capital cost of a car number plate itself will be negligible and is the same irrespective of the numbers stamped on it. [½]

As an intangible asset, **tax relief is given under the intangibles legislation** and not as a simple revenue deduction. In particular capital allowances are not available. [½] As an intangible asset, **relief should be claimed over the useful economic life of the asset via commercial amortisation (or as a 4% per annum write off over 25 years)**. This assumes that the intangible asset is not held for a non-business purpose. [1]

The provision of a personalised number plate on a company car would not give rise to a taxable benefit over and above the normal car benefit charge, but this is not a company car. In this case the number plate is registered to a personally owned car. **If a taxable benefit does therefore arise it would be calculated based on the "annual value"**. In this case the annual value would be 20% of the market value of the number plate when first provided as a benefit. Assuming that £5,000 represents the market value of the plate, then **a taxable benefit of £1,000 would arise being 20% of £5,000**. The fact that the number plate has Alex's detail would suggest such a personal benefit. [1]

Travelling and subsistence - Overseas sales trip

Alex and his wife clearly took a short holiday following the exhibition at the company's expense.

However, **all of the costs are allowable deductions for the company as they are incurred wholly and exclusively for the purposes of the trade**. As well as relief being available for the business element of the trip, relief is available for the private element as it is a form of additional employment income. [1]

A **taxable benefit** will need to be assessed **in respect of the costs not incurred in respect of the necessary attendance at the conference**. Some of the costs of the trip should be attributed to this element for taxable benefit purposes. [1]

An **alternative treatment** would be to **debit the private element to Alex's director's loan account and disallow that portion for corporation tax purposes**, leaving the business proportion as an allowable deduction. [½]

Staff welfare - End of year party for staff and other guests

The primary concern here relates to any benefit issues for the employees attending the event which is in addition to the usual Christmas party. An **exemption** does exist for the provision of a party or similar function for employees that meets the following three conditions:

- It is an **annual event**, such as a Christmas party or summer barbeque;
- The event is **open to all employees**;
- The **cost per head of the event is not more than £150. [1]**

It would appear that the first two conditions have been satisfied but the final condition may need further attention particularly as there were two annual events.

The £150 threshold is not an annual allowance that can be offset against the total cost of a number of events with only the excess then being taxable. Instead it is necessary to ascertain the cost per head of each event.

If the **combined cost of the events is no more than £150 per head then no benefit arises**. If the combined cost per head of the events is **more than £150, then the exemption can be applied to the event which is the greater but has a cost below £150**. The other event will give rise to a taxable benefit. If **both events cost more than £150 each then both will be taxable. [1]**

In addition it would appear that the event was attended by customers and suppliers. Whilst the primary purpose of the event would appear to be for staff and be treated as allowable staff entertainment, **an element of the expenditure should be apportioned to the provision of non-allowable business entertainment. [1/2]**

CIOT MARKING GUIDE

| TOPIC | MARKS |
|---|-----------|
| a) <u>General sponsorship agreement</u> | |
| – Costs generally allowable | ½ |
| – When relief is not available | 1 |
| – Risk no deduction due to personal connection/non-business purpose | 1 |
| – Discussion of evidence considered by HMRC | ½ |
| – Reference to tests considered by HMRC/case law | ½ |
| Sub total | 3½ |
| b) <u>Timing of deduction</u> | |
| – Timing of deduction under GAAP and allowable amount after apportionment | 1 |
| c) <u>Entertainment</u> | |
| – Cost re client/supplier entertainment not allowable | ½ |
| – Staff entertaining allowable | ½ |
| – Taxable benefit for employees | ½ |
| – Calculation of benefit | ½ |
| – Trivial benefit rules will not apply | ½ |
| Sub total | 2½ |
| d) <u>Additional sponsorship payment for coach</u> | |
| – Need to consider wholly and exclusive issues | ½ |
| – Not capital for company | ½ |
| – Need to identify extra benefits derived from the payment | ½ |
| Sub total | 1½ |
| e) <u>Payment of players wages</u> | |
| – Position if repayment not expected | ½ |
| – Position if repayment expected | 1 |
| – Position if loan written off | 1 |
| – Consideration of participator legislation | ½ |
| Sub total | 3 |
| f) <u>Motor expenses</u> | |
| – Intangible asset issues in relation to personalised number plate | 1½ |
| – Including method of amortisation | 1 |
| – Benefit issues as on own car including calculation thereof | 1 |
| Sub total | 3½ |
| g) <u>Overseas sales trip</u> | |
| – Allowable for company | 1 |
| – Benefit issues | 1 |
| – Alternative treatment | ½ |
| Sub total | 2½ |
| h) <u>Year end party</u> | |
| – General exemption for function | 1 |
| – Application to current scenario | 1 |
| – Allowable amount for CT purposes | ½ |
| Sub total | 2½ |
| TOTAL | 20 |

Examiner's report:

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This was a straightforward question on the key issue of allowable expenditure for a company and the 'wholly and exclusive' test and related topics of allowable and unallowable entertainment expenditure.

There was a need for references to statutory legislation and to case law if possible on what is a fundamental area of business taxation. Many answers were far too general and vague and lacked specific detailed comments or reference to legislation or case law.

As regards the specific aspects of the question:

- General Sponsorship – Reasonably well covered although tendency to be too general.
- Additional contribution for coach – Few candidates made any comments other than to repeat what they said for general sponsorship agreement.
- Players Wages – Reasonably well dealt with showing understanding of loan etc.
- Motor expenses – Very few candidates showed any knowledge of the intangible nature of number plates and rights. Whilst this is a high knowledge area of the syllabus would have expected far better on what is a commonly occurring topic.
- Travel and subsistence – Very well dealt with area of question.
- Staff welfare – Again very well dealt with area showing good understanding of annual events etc.

9. ARCHITECTS

Part 1)Allocation of profits

| | Total £ | Roger £ | Simon £ | Tim £ | Ursula £ | |
|----------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----|
| <u>Y/e 31.3.26</u> | <u>30,000</u> | | | | | |
| 1.4.25 – 31.1.26: | | | | | | |
| Salaries (10/12) | 50,000 | 5,000 | 15,000 | 30,000 | | [½] |
| Interest (10/12) | 1,900 | 400 | 600 | 900 | | [½] |
| Balance (2:2:1) | <u>(26,900)</u> | <u>(10,760)</u> | <u>(10,760)</u> | <u>(5,380)</u> | | [½] |
| | <u>25,000</u> | <u>(5,360)</u> | <u>4,840</u> | <u>25,520</u> | | |
| 1.2.26 – 31.3.26: | | | | | | |
| Salaries (2/12) | 15,000 | 1,000 | 3,000 | 6,000 | 5,000 | [½] |
| Interest (2/12) | 500 | 80 | 120 | 180 | 120 | [½] |
| Balance (4:3:2:1) | <u>(10,500)</u> | <u>(4,200)</u> | <u>(3,150)</u> | <u>(2,100)</u> | <u>(1,050)</u> | [½] |
| | <u>5,000</u> | <u>(3,120)</u> | <u>(30)</u> | <u>4,080</u> | <u>4,070</u> | |
| Totals | 30,000 | (8,480) | 4,810 | 29,600 | 4,070 | |
| Reallocate loss (N) | | <u>8,480</u> | <u>(1,060)</u> | <u>(6,523)</u> | <u>(897)</u> | [1] |
| Final allocation | <u>30,000</u> | <u>Nil</u> | <u>3,750</u> | <u>23,077</u> | <u>3,173</u> | [½] |

Note:

The loss has been reallocated in line with s.849/850 ITTOIA 2005 based on profit shares for the period of account (i.e. £4,810 : £29,600 : £4,070).

Income Tax & Class 4 NIC liabilities for partnersRoger:

| | | | |
|-----------------------------|-------------|------------|-----|
| Assessable Profits 2025/26: | y/e 31.3.26 | £ | |
| | | <u>Nil</u> | |
| Tax and NIC liability | | <u>Nil</u> | [½] |

Simon:

| | | | |
|-----------------------------|--|--------------|-----|
| Assessable Profits 2025/26: | y/e 31.3.26 | £ | |
| | | <u>3,750</u> | |
| Tax and NIC liability | Profits covered by PA & lower profits limit | <u>Nil</u> | [1] |

| | | | |
|---|-------------------------|--------------------|-----|
| <u>Tim:</u> | | | |
| Assessable Profits 2025/26: | y/e 31.3.26 | £ <u>23,077</u> | |
| Income tax: | | | |
| Profits | | 23,077 | |
| Less: PA | | <u>(12,570)</u> | |
| Taxable | | <u>10,507</u> | |
| Tax @ 20% | | <u>2,101</u> | [½] |
| Class 4 NIC: | | | |
| Profits | | 23,077 | |
| Less: Lower limit | | <u>(12,570)</u> | [½] |
| | | <u>10,507</u> | |
| NIC @ 6% | | <u>630</u> | [½] |
| <u>Ursula:</u> | | | |
| Assessable Profits 2025/26: | 1.2.26 – 31.3.26 | £ <u>3,173</u> | [½] |
| Income tax: | | | |
| Profits | | 3,173 | |
| Employment income | £40,000 x 10/12 | <u>33,333</u> | [½] |
| Total income | | 36,506 | |
| Less: PA | | <u>(12,570)</u> | |
| Taxable | | <u>23,936</u> | |
| Tax @ 20% | | <u>4,787</u> | [½] |
| Class 4 NIC: | | | |
| The profits are less than the lower profits limit and hence there is no liability to Class 4 NIC | | | [1] |

Part 2)**Tutorial Note:**

Where changes occur in profit share ratios each partner would have been treated as acquiring/disposing of a fractional share in the partnership assets.

When Ursula joins the partnership she **will acquire a 10% share of the goodwill**. The base cost on a future disposal will be the £45,000 paid to Simon plus 10% of the original cost (ie Simon's deemed disposal proceeds). [½]

She will also acquire a **10% share of the property at a base cost of £40,000**, based on **10% of the revalued amount** in the accounts. [½]

Roger and Tim's interests in the partnership **remains the same so neither of them will make a disposal**. [½]

Simon **will dispose of a 10% share in the goodwill and property** based on **the change between his original profit share (40%) and his revised profit share (30%)**. [½]

Simon's base cost for goodwill will be **based on the original cost of £100,000, as goodwill has never been revalued** in the accounts. [½]

As there **has been no revaluation of the goodwill, his disposal is deemed to take place at original cost**. In addition, the consideration that is paid to Simon outside the

accounts is added to this deemed consideration which will result in a chargeable gain. [1/2]

His **base cost in the property will have arisen over a number of years** based on the original cost, subsequent revaluations and changes in profit share ratios. [1/2]

Where there is a **revaluation of an asset in the accounts** (with an effective credit to the partner's current or capital account) **followed by a subsequent change in profit share ratio**, there will be a **disposal at the re-valued amount**. [1/2]

Simon would be **able to claim business asset disposal relief** on the disposal as he is **disposing of an interest in the partnership**. [1/2]

When Roger retires **he will dispose of his interest in the property and the goodwill** for consideration to be agreed at that time and **the remaining partners will acquire their interests in Roger's goodwill and property** as above.

Again, his base cost in the property will have arisen over a number of years based on the original cost, subsequent revaluations and changes in profit share ratios. He will **qualify for business asset disposal relief** on disposal of his final partnership interest. [1/2]

CIOT MARKING GUIDE

| TOPIC | MARKS |
|---|-----------|
| <u>Part 1)</u> | |
| Apportionment of profits for the year ended 31 March 2026 | |
| – For the ten-month period to 31 January 2026 | 1½ |
| – For two-month period to 31 March 2026 | 1½ |
| – Reallocation of loss | 1 |
| – Totals | ½ |
| Roger calculation of Tax and NIC | ½ |
| Simon calculation of Tax and NIC | 1 |
| Tim calculation of Tax and NIC | 1½ |
| Ursula calculation of Tax and NIC | <u>2½</u> |
| Sub total | 10 |
| <u>Part 2)</u> | |
| Introduction of Ursula as partner | |
| Ursula | |
| – Acquisition of goodwill | ½ |
| – Acquisition of property | ½ |
| Roger and Tim | |
| – No disposal | ½ |
| Simon | |
| – Disposing of 10% share | ½ |
| – Base cost of goodwill | ½ |
| – Gain calculation | ½ |
| – Base cost of property | ½ |
| – Disposal at revalued amount | ½ |
| – Business asset disposal relief on disposal | ½ |
| Roger retirement and disposals | |
| – Disposal by Roger and acquisition by partners | ½ |
| Sub total | 5 |
| TOTAL | 15 |

Examiner's report:

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The first part dealt with allocation of partnership profits on a new partner joining. This required the reallocation of one partner's loss amongst other profitable partners.

Answers were good, although few correctly reallocated the loss and reallocated in two parts rather than at very end of allocations in accordance with legislation.

The second part of the question dealt with the capital gains tax on a partner joining and a partner leaving. The majority of candidates were very vague in their answers and did not show a clear understanding of the relevant rules.

10. FUTUORA LTD

1) Corporation Tax computation

The company is a SME as it has:

1. **Fewer than 500 employees**; and [½]
2. **Turnover not exceeding €100m.** [½]

Tutorial Note:

A company with fewer than 500 employees is also an SME where it has a Balance sheet not exceeding €86m.

It has **made a trading loss** [½] and **meets the R&D intensity condition** [½] as the **relevant R&D expenditure** (broadly the qualifying R&D expenditure) amounts to **at least 30% of the expenditure reflected in the accounts.** [½]

Therefore it is entitled to relief of **186% on qualifying expenditure.** [½]

Corporation Tax computation for the period ended 31 March 2026

| | | | |
|--|---|---------------------------|------------|
| | £ | £ | |
| Net loss per accounts | | (1,580,000) | [½] |
| Add: Depreciation on non finance lease assets | | | |
| (154,000 - 46,000) | | 108,000 | [2] |
| Entertainment | | 32,000 | [1] |
| Less: Capital Allowances (Note 1) | | (590,000) | [½] |
| 86% extra enhanced R & D (Note 2) | | <u>(1,006,716)</u> | [½] |
| Adjusted loss | | (3,036,716) | |

Notes:Note 1 - Capital Allowances

| | | |
|---|-----------------------|------------|
| | £ | |
| Additions qualifying for AIA x 100%: | <u>590,000</u> | [1] |

Tutorial Note:

Capital expenditure does not qualify for the enhanced relief but does qualify for capital allowances. The AIA has been claimed in priority to the FYA in order to reduce the potential for a balancing charge on disposal but credit would be given if a FYA at 100% had been claimed.

Note 2 – Expenditure qualifying for R&D tax credits

| | | | |
|-------------------------|--|-------------------------|------------|
| | | £ | |
| Materials | | 760,000 | [1] |
| Sub-contractors | £120,000 x 65% | 78,000 | [1] |
| Direct labour | £490,000 x 60% | 294,000 | [1] |
| Directors remuneration | (20% x £5,000) + (80% x £5,000) | 5,000 | [1] |
| Light & heat | £48,000 x 70% | <u>33,600</u> | [1] |
| | | 1,170,600 | |
| 186% deduction in total | | | |
| Extra deduction @ 86% | | <u>1,006,716</u> | [½] |

2) Option for using the loss

The loss of £3,036,716 is **automatically available for carry forward** under s.45 CTA 2010. [½] It will be used **against the company's future total profits**. [½]

Alternatively, the company may surrender the **lower of its unrelieved trading loss** [½] and **186% of qualifying R&D expenditure** [½] for a **repayable R&D tax credit**. [½] The tax credit is **14.5% of the surrenderable loss**. [½]

The PAYE cap restricts the R&D tax credit to a maximum of £20,000 (reduced proportionately where the accounting period is less than 12 months) plus three times the PAYE and NICs payable on all employees for the period. However, **it will not apply in this case** as the company will be **creating intellectual property** and there is **no expenditure on externally provided workers or sub-contracted R&D by a connected company**. [½]

If the losses were carried forward they would be available for **relief at a minimum of 19%**. [½]

However, in view of the company's current **cash flow problems**, the directors may decide to **claim a repayment now**. [½] The lower of the unrelieved trading loss (£3,036,716) and 186% of the qualifying R&D (£2,177,316) is £2,177,316. If so, the repayment could be a maximum of £2,177,316 x 14.5% = £315,711. [1]

Losses available for carry forward are:

| | | |
|--------------------------|-----------------------|-----|
| | £ | |
| Loss as above | 3,036,716 | |
| Less: Surrendered | (2,177,316) | |
| Losses c/f | <u>859,400</u> | [½] |

MARKING GUIDE

| TOPIC | MARKS |
|--|----------------|
| <u>Part 1)</u> | |
| Identify SME | 1 |
| Identify trade loss | $\frac{1}{2}$ |
| R& D intensity condition | 1 |
| Relief of 186% on qualifying expenditure | $\frac{1}{2}$ |
| Corporation Tax Computation: | |
| Loss per accounts | $\frac{1}{2}$ |
| Add back depreciation | 1 |
| excluding FL depreciation | 1 |
| Add back entertainment | 1 |
| Deduct CAs | $\frac{1}{2}$ |
| Deduct extra 86% enhanced R&D | $\frac{1}{2}$ |
| Capital allowances: | |
| AIA additions @ 100% | 1 |
| Expenditure qualifying for R&D: | |
| Materials | 1 |
| Sub-contractors | 1 |
| Direct labour | 1 |
| Directors remuneration | 1 |
| Light & heat | 1 |
| 186% relief so 86% extra deduction required | $\frac{1}{2}$ |
| Sub total | 14 |
| <u>Part 2)</u> | |
| Carry forward v future profits | 1 |
| Surrender lower of unrelieved loss and 186% of qualifying R&D for repayable tax credit | $1\frac{1}{2}$ |
| Rate of tax credit | $\frac{1}{2}$ |
| PAYE cap N/A | $\frac{1}{2}$ |
| Carry forward = relief at minimum 19% | $\frac{1}{2}$ |
| Cashflow considerations | $\frac{1}{2}$ |
| Calculate maximum repayment | 1 |
| Show losses available for carry forward | $\frac{1}{2}$ |
| Sub total | 6 |
| TOTAL | 20 |

11. FOODIES LLP'Partnerships with Mixed Membership'

The 'partnerships with mixed members' provisions (ss.850C – 850E ITTOIA 2005) 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 LTD

SpillClean Ltd

Year ended 31 March 2026

Plant 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 2025 | | | 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) | | 16,800 |
| 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) | | 499 |
| | | <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 six months to 31 December 2025. A new Corporation Tax accounting period commences on 1 January 2026 as the commencement of trade brings about a new Corporation Tax period.

Year ended 30 June 2026

| | Note | 6m to 31/12/25 £ | 6m to 30/06/26 £ |
|---|------|------------------------|------------------------|
| 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 31/12/25 £ | 6m to 30/06/26 £ |
|-------------------------------|------------------------|------------------------|
| 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 31/12/25</u> | | |
| £37,500 @ 25% | 9,375 | |
| Less: Marginal relief | | |
| $3/200 \times (125,000 - 45,500) \times 37,500/45,500$ | <u>(983)</u> | |
| | <u>8,392</u> | |
| Due 1.10.26 | | |
| <u>6m to 30/06/26</u> | | |
| £59,250 @ 25% | | 14,813 |
| Less: Marginal relief | | |
| $3/200 \times (125,000 - 61,250) \times 59,250/61,250$ | | <u>(925)</u> |
| | | <u>13,888</u> |
| Due 1.4.27 | | |

Notes:

| | | | | |
|----|---|------|--|-------------------|
| 1. | Investment business | | | |
| | | Note | | 6m to 31/12/25 |
| | | | | £ |
| | Property income | 2. | | 50,000 |
| | Bank and other interest | | | 1,000 |
| | Dividends received | 3. | | 0 |
| | Management expenses – proportion of director's salary | 4. | | <u>(1,500)</u> |
| | | | | 49,500 |
| | Less: excess management expenses b/f | | | <u>(12,000)</u> |
| | | | | <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 1.11.25 = 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 2025. Similarly, £1,500 is an allowable management expense for the period ended 30 June 2026. 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.
- 5.
- | | | | | |
|------------------------------|------|--------------|--|-------------------|
| Trading Profits | Note | | | 6m to 30/06/26 |
| | | | | £ |
| 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. | | | <u>(117,250)</u> |
| 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 30.6.26 | £ | 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 31.12.25 | |
| 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 30.6.26 | |
| 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 | 1 |
| | <u>1</u> |
| | Sub total |
| | 11 |
| <u>Part 2</u> | |
| – Due dates | 1 |
| – Corporation Tax liabilities | 3 |
| | <u>3</u> |
| | Sub total |
| | 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 18% in 2026/27 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 24%.

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 18% 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 three years of the share sale, then the property may also qualify for the 18% 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 18% 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 18% rate.

Chargeable gains that do not qualify for BADR will be taxed at Maria's marginal CGT rate of 24%.

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 18% 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 2022/23

The first issue is whether an assessment can be raised as the window for enquiring into the 2022/23 Self-Assessment return closed on 1 October 2024.

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, ie on or before 5 April 2029.

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 2022/23 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 2022/23.
- 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 2022/23 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 15% 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 24%, 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 an 18% 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.