
Answers

1 Ziti

Notes for meeting

Prepared by Tax senior

Date 6 June 2014

Subject Ziti – sale of business and inheritance tax

(a) Sale of the business

(i) Post-tax income and sales proceeds

Income tax position

Business cessation on 31 January 2015 in the tax year 2014/15

| | 2014/15 £ |
|---|----------------|
| Trading income – 2014/15 (1 May 2013 to 31 January 2015) (21 x £5,000) | 105,000 |
| Add: net balancing charge (£6,000 – £10,000) | 4,000 |
| Less: overlap profits | (9,000) |
| Taxable trading profit | <u>100,000</u> |
| Less: personal allowance | (9,440) |
| Taxable income | <u>90,560</u> |
| £32,010 x 20% | 6,402 |
| £58,550 x 40% | <u>23,420</u> |
| Income tax payable | <u>29,822</u> |

Tutorial notes:

- The basis period for 2014/15 (the final tax year) runs from the end of the basis period for the 2013/14 year of assessment, i.e. 30 April 2013, to the date of cessation. Accordingly, it will include the results for the 12 months ended 30 April 2014 and the final period ended 31 January 2015.
- There will be £6,000 of annual investment allowance in the first period and a balancing charge of £10,000 in the final period.

Business disposal on 30 April 2015 in the tax year 2015/16

| | 2014/15 £ | 2015/16 £ |
|---|---------------|---------------|
| Trading income – 2014/15 (1 May 2013 to 30 April 2014) (12 x £5,000) | 60,000 | |
| Trading income – 2015/16 (1 May 2014 to 30 April 2015) (12 x £5,000) | | 60,000 |
| Less: capital allowances (£6,000 x 100% AIA) | (6,000) | |
| Add: balancing charge (£0 – £10,000) | | 10,000 |
| Less: overlap profits | | (9,000) |
| Taxable trading profit | <u>54,000</u> | <u>61,000</u> |
| Less: personal allowance | (9,440) | (9,440) |
| Taxable income | <u>44,560</u> | <u>51,560</u> |
| £32,010 x 20% | 6,402 | 6,402 |
| £12,550/£19,550 x 40% | 5,020 | 7,820 |
| Income tax payable | <u>11,422</u> | <u>14,222</u> |

Capital gains tax (CGT) position

Sale of assets on 31 January 2015

| | £ |
|-------------------------------|----------|
| Capital gains: | |
| Building (£330,000 – £60,000) | 270,000 |
| Equipment | Nil |
| | <hr/> |
| | 270,000 |
| Annual exempt amount | (10,900) |
| Taxable gains | <hr/> |
| | 259,100 |
| CGT at 10% | <hr/> |
| | 25,910 |

No capital gains or losses will arise in respect of the equipment, as moveable items (chattels) with a cost and market value of not more than £6,000 are exempt from CGT.

Sale of business on 30 April 2015

| | £ |
|--|--------|
| CGT due in respect of the sale of the building on 31 January 2015 (as above) | 25,910 |
| CGT due in respect of the sale of goodwill (£40,000 x 10%) | 4,000 |
| | <hr/> |
| | 29,910 |

Tutorial note: Ziti's base cost in the assets equals their original cost. This is because gift relief was claimed when Ziti acquired the business from his father.

Availability of entrepreneurs' relief:

Entrepreneurs' relief is available where a business which has been owned for at least a year:

- is sold; or
- ceases to be carried on and its assets are sold within three years of cessation.

Accordingly, the relief will be available in both situations.

Summary

| | Sale on 31 January 2015 £ | Sale on 30 April 2015 £ |
|--|---------------------------------|-------------------------------|
| Trading income (£5,000 x 21/24) | 105,000 | 120,000 |
| Equipment purchased 1 August 2013 | (6,000) | (6,000) |
| Sale proceeds: | | |
| Goodwill | – | 40,000 |
| Building | 330,000 | 330,000 |
| Equipment | 10,000 | 10,000 |
| Less: income tax (£29,822/(£11,422 + £14,222)) | (29,822) | (25,644) |
| CGT | (25,910) | (29,910) |
| | <hr/> | <hr/> |
| | 383,268 | 438,446 |

Delaying the sale until 30 April 2015 would:

- be financially beneficial; and
- delay the payment of both the income tax for the profits taxed in the tax year 2015/16 and the CGT.

Assumption:

Ziti has not used his CGT annual exempt amount.

(ii) Value added tax (VAT)

Sale on 31 January 2015

VAT will need to be charged at 20% on the sale of the equipment.

The sale of the building will be an exempt supply, as it is a commercial building, more than three years old and no election has been made for it to be a taxable building.

Sale on 30 April 2015

VAT will need to be charged at 20% on the equipment and the goodwill unless the sale qualifies as a transfer of a going concern.

As noted above, the sale of the building will be an exempt supply, such that no VAT will need to be charged.

For the sale of the business to be regarded as a transfer of a going concern, the following conditions must be satisfied:

- The business must be a going concern.
- The purchaser must use the assets to carry on the same kind of business as that carried on by Ziti.
- The purchaser must be VAT registered or be required to be VAT registered as a result of the purchase (based on the supplies made by the purchased business in the previous 12 months).
- There should be no significant break in trading before or after the purchase of the business.

(b) Inheritance tax

| Date of death | Note | Liability £ |
|------------------------------|-------|----------------|
| 7 June 2014 to 30 April 2015 | 1 | Nil |
| 1 May 2015 to 30 June 2015 | 2 | 48,480 |
| 1 July 2015 to 30 June 2016 | 3(i) | 32,320 |
| 1 July 2016 to 30 June 2017 | 3(ii) | 16,160 |

Notes

1. If Ravi were to die whilst Ziti still owns the business, there would be no inheritance tax liability due to the availability of 100% business property relief on the transfer of an unincorporated business which has been owned by the transferor (Ravi) for at least two years.
2. Business property relief will not be available if Ziti does not own the business when Ravi dies, because he does not intend to reinvest all of the proceeds into replacement business property.

Taper relief will be available once Ravi has survived the gift by at least three years.

| | £ | £ | £ |
|---|----------------|------------------|------------------|
| Value transferred (£40,000 + £300,000 + £9,000) | | | 349,000 |
| Annual exemptions (2010/11 and 2009/10) | | | (6,000) |
| | | | <u>343,000</u> |
| Nil rate band | | 325,000 | |
| Chargeable transfer in the seven years prior to 1 July 2010 | 190,000 | | |
| Annual exemptions (2006/07 and 2005/06) | <u>(6,000)</u> | | |
| | | <u>(184,000)</u> | |
| | | | <u>(141,000)</u> |
| | | | <u>202,000</u> |
| Inheritance tax at 40% | | | 80,800 |
| Taper relief (four to five years) (40% x £80,800) | | | <u>(32,320)</u> |
| | | | <u>48,480</u> |
| 3. Additional taper relief | | | |
| (i) Taper relief of 60% (five to six years) | | | <u>32,320</u> |
| (ii) Taper relief of 80% (six to seven years) | | | <u>16,160</u> |

2 Opus Ltd group of companies

(a) Trading losses of Akia Ltd and Ribe Ltd

| | Notes | £ | £ |
|--|-------|---------------|-----------------|
| Akia Ltd | | | |
| Trading loss for the year ended 31 March 2014 | | | 93,000 |
| Offset of losses in Akia Ltd: | | | |
| Year ended 31 March 2014 | | | (6,000) |
| Year ended 31 March 2013 | 1 | | Unknown |
| Group relief: | 2 | | |
| Opus Ltd | | | |
| Trading profit | | 10,000 | |
| Property income | | 8,000 | |
| Chargeable gain on the sale of the shares in Venere Ltd | 3 | Nil | |
| Chargeable gain transferred from Lido Ltd | 4 | <u>21,000</u> | |
| | | | (39,000) |
| Binni Ltd | 5 | | (31,000) |
| Ribe Ltd | 6 | | <u>–</u> |
| Amount unrelieved | 7 | | <u>17,000</u> |
| Ribe Ltd | | | |
| Trading loss brought forward as at 1 April 2013 | | | 68,000 |
| Offset against trading profit for the year ended 31 March 2014 | 6 | | <u>(41,000)</u> |
| Trading loss carried forward as at 31 March 2014 | | | <u>27,000</u> |

Notes

1. Akia Ltd can offset its trading loss against its total income and chargeable gains of the loss-making period and those of the previous 12 months. Accordingly, we need to know the amounts (if any) of the company's unrelieved income and chargeable gains for the year ended 31 March 2013.
2. Akia Ltd is in a 75% group relief group with Opus Ltd, Ribe Ltd and Binni Ltd. Lido Ltd is not in the group, as the effective interest of Opus Ltd in Lido Ltd of 68% (80% x 85%) is less than 75%.
Venere Ltd is a 75% subsidiary of Jarrah Ltd, such that it cannot be a consortium company.
3. The chargeable gain on the sale of the shares will be exempt under the substantial shareholding exemption. This is because Opus Ltd and Venere Ltd are trading companies and Opus Ltd had owned at least 10% of the shares in Venere Ltd for a 12-month period during the two years prior to the sale.
4. Lido Ltd is in a chargeable gains group with Opus Ltd. This is because Opus Ltd has a direct interest of at least 75% in Ribe Ltd which, in turn, has a direct interest of at least 75% in Lido Ltd, **and** Opus Ltd has an effective interest in Lido Ltd of more than 50% (80% x 85% = 68%).
The chargeable gain of Lido Ltd can therefore be transferred to Opus Ltd and can then be relieved via group relief from Akia Ltd.
5. Binni Ltd joined the Opus Ltd group on 1 December 2013, such that it is in a group relief group with Akia Ltd for the four months from 1 December 2013 to 31 March 2014.
The maximum loss which can be surrendered by Akia Ltd to Binni Ltd is the lower of:

| | |
|--|---------|
| The loss of Akia Ltd for the overlapping period (£93,000 x 4/12) | £31,000 |
| The total profits of Binni Ltd for the overlapping period (£78,000 x 4/10) | £31,200 |
6. The trading losses brought forward in Ribe Ltd must be offset against the first available trading profits of the same trade. Accordingly, the company has no profits which can be relieved via group relief.
The remaining losses cannot be surrendered as group relief to Lido Ltd as only current period losses can be group relieved.
7. The use of losses carried forward in Akia Ltd will be delayed because the company is not expected to be profitable for some time. Akia Ltd can turn what would otherwise be trading losses **carried forward** into future **current period** trading losses (available for immediate relief via group relief) by not claiming capital allowances equal to its unrelieved current period trading loss.

Reducing the capital allowances would increase the tax written down value of the main pool and consequently the capital allowances and trading loss in future periods. The increased trading loss could then be group relieved.

Reducing the capital allowances would reduce the trading loss of Akia Ltd for the year ended 31 March 2014. This in turn would reduce the maximum loss which could be surrendered to Binni Ltd.

Tutorial note: *The chargeable gain of Lido Ltd could be transferred to Akia Ltd or Ribe Ltd, rather than Opus Ltd, and be relieved via Akia Ltd's losses in a similar way to that set out above. It would not be beneficial to transfer the gain to Binni Ltd, due to the restriction on the surrender of losses to that company.*

(b) Sale of shares in Venere Ltd

If the shares are sold on 30 June 2014, the chargeable gain arising will be exempt under the substantial shareholding exemption. This is because Opus Ltd would have owned at least 10% of the shares in Venere Ltd for a 12-month period during the two years prior to the sale (i.e. for the period from 1 July 2012 to 30 September 2013). Accordingly, the post-tax proceeds will be equal to the gross proceeds of £80,000.

If the shares are sold on 30 April 2015, there will not be a 12-month period in the previous two years where Opus Ltd has owned at least 10% of the shares in Venere Ltd. Accordingly, on the assumption that the shares are sold for £100,000, there will be a chargeable gain of £73,235 (W). This gain will be subject to corporation tax of £16,844 (£73,235 x 23%). The post-tax proceeds will be £83,156 (£100,000 – £16,844).

Therefore, while there may be a marginal increase in the post-tax proceeds from delaying the sale until after the results for the year ending 31 March 2015 are known, there is no guarantee that a higher level of sales proceeds will be achieved and there will be a significant delay in obtaining the sales proceeds. Also, these figures assume that any costs of sale will be the same at both dates, which may not be the case.

Working

| | £ |
|--|----------|
| Proceeds | 100,000 |
| Less: cost (£65,000 x 50,000/170,000) | (19,118) |
| indexation allowance (£19,118 x 0.400) | (7,647) |
| | 73,235 |
| Chargeable gain | 73,235 |

(c) Error in the corporation tax return of Binni Ltd

Interest on underpaid tax

Binni Ltd will be regarded as having underpaid corporation tax on each of the four payment dates for the year ended 31 May 2012. Accordingly, interest may be charged from 14 December 2011, 14 March 2012, 14 June 2012 and 14 September 2012 on any amounts of underpaid corporation tax.

Disclosure of the error

The error must be disclosed to HM Revenue and Customs (HMRC). It is not acceptable for our firm to continue to act for the company unless this disclosure is made.

Binni Ltd can disclose the information or it can authorise us to do so. However, we must not disclose the error unless we have permission from the company.

Voluntary disclosure of the error may result in a reduction in any penalty which may be charged by HMRC.

We should notify the company of the following consequences of not informing HMRC of the error:

- If the company refuses to disclose the error, we will advise HMRC that we no longer act for the company. We would not, however, give any reason for our actions.
- Non-disclosure of the errors would also represent tax evasion by the company. This could result in criminal proceedings under both the tax and money laundering legislation.

3 Pita plc

(a) Financial assistance with childcare and encouraging working from home

Vouchers to purchase childcare

The cost of providing the vouchers (as opposed to the value of the services which they can be used to purchase) will be taxable employment income as reduced by the following exemption.

The exemption will only be available where the vouchers are available to all employees and the care is provided by an approved childcarer. The amount of the exemption varies depending on the marginal rate of income tax paid by each employee. This marginal rate of tax is determined by reference to the employee's employment income only.

The exemption is:

£55 per week for a basic rate taxpayer

£28 for a higher rate taxpayer

£25 for an additional rate taxpayer.

Payments for working from home

These payments will not result in taxable employment income where an employee receives no more than £4 per week (or £18 per month). Payments in excess of these limits will be taxable in full unless the employee is able to provide evidence of the additional household costs incurred.

Tutorial note: *Credit was available for identifying the exemption limits in respect of the vouchers and payments but it was possible to score full marks without this knowledge.*

(b) (i) Ability to establish an enterprise management incentive (EMI) scheme

Pita plc is a qualifying company for the purposes of the EMI scheme because:

- it has gross assets of no more than £30 million; and
- it has fewer than 250 full-time employees; and
- it has a permanent establishment in the UK.

Under the EMI scheme rules, Pita plc is allowed to make the scheme available to just its nine key employees. However, the two part-time key employees cannot join the scheme unless they work for Pita plc for at least 25 hours per week or, if lower, 75% of their working time.

Tutorial notes:

1. *The following conditions would also be relevant but the information necessary to address them was not provided in the question.*
 - *An employee owning 30% or more of the company's ordinary shares would not be permitted to join the scheme.*
 - *Pita plc must carry on a qualifying trade and must not be controlled by another company.*
2. *The answer does not include the need for the shares to be fully paid up irredeemable ordinary shares as the requirement refers to the conditions relating to the company and the employees, and not to the shares.*

(ii) Income tax and capital gains tax implications for the employees

There will be no income tax on the grant of the share options.

The options are to be exercised within ten years of the date on which they were granted. Accordingly, income tax will only be charged on the excess of the market value of the shares at the time the options were granted over the price paid on exercise, i.e. 25 pence per share (£2.00 – £1.75).

When the shares are sold, there will be a capital gain per share equal to the excess of the sales proceeds over the market value at the time the options were granted, i.e. £3 per share (£5 – £2).

On a disposal of EMI shares in Pita plc, entrepreneurs' relief will be available where:

- Pita plc was a trading company throughout the year prior to the disposal.
- The shareholder was employed by the company throughout the year prior to disposal.
- The options were granted at least one year prior to the date of the disposal of the shares.

There is no requirement for the individual to own at least 5% of the shares in the company where the shares are EMI shares.

(c) Redundancy package for Narn

The statutory redundancy payment is covered by the £30,000 exemption which is available in respect of termination payments which are not in respect of services provided by the employee.

The additional amount of £26,000 will be taxable in full if:

- Narn was contractually entitled to receive it; or
- it was in respect of work done by Narn; or
- it was in respect of a restriction placed on Narn's future working activities.

If the payment is not taxable in full, £21,900 (£30,000 – £8,100) will be exempt and the balance of £4,100 will be taxable.

The continued use of the company car will result in a taxable benefit in the tax year 2014/15 after Narn has left the company. The benefit will be £2,047 ($6/12 \times £19,500 \times 21\%$ ($11\% + ((130 - 95)/5) + 3\%$)).

4 Kesme

(a) Income tax

Availability and operation of rent-a-room relief

Rent-a-room relief is available because Kesme and Soba are letting furnished rooms in their main residence.

Claiming the relief will allow each of them to deduct £2,125 (£4,250/2), rather than their share of the allowable expenses (a smaller figure), from their share of the gross rental income.

This relief must be claimed by 31 January 2016 (22 months after the end of the tax year 2013/14). The claim will then continue to apply until it is withdrawn.

Tutorial note: *The election would also cease to apply in the unlikely event that the gross annual rent fell below £4,250.*

Taxable income for the tax year 2013/14

| | £ |
|--|---------|
| State retirement pension | 7,900 |
| Pension from former employer | 24,100 |
| Property business income ((£14,400/2) – £2,125) | 5,075 |
| 8% loan stock interest ((£18,000 x 8% x 6/12) + (£18,000 x 8% x 4/12)) | 1,200 |
| | <hr/> |
| | 38,275 |
| Less: personal allowance (W) | (9,440) |
| | <hr/> |
| Taxable income | 28,835 |

Working

Personal allowance

| | £ |
|---|---------|
| Born between 6 April 1938 and 5 April 1948 | 10,500 |
| Less: ((£38,275 – £26,100)/2) – restricted to | (1,060) |
| | <hr/> |
| | 9,440 |

Tutorial note: *Kesme has sold the loan stock cum interest. Under the accrued income scheme, Kesme will be treated as having received interest for the period from 1 June 2013 to 30 September 2013.*

(b) Capital gain on the eventual sale of the family home

No capital gain arises on the sale of a house which has always been occupied by its owner due to the availability of the principal private residence (PPR) exemption. Accordingly, if the rooms were not rented out, no capital gain would arise on the eventual sale of the family home.

However, following the renting out of the furnished rooms, part of the property (30%) is no longer occupied by Kesme and Soba, such that a taxable capital gain may arise on the eventual sale. This taxable gain will be calculated as follows:

- The initial gain is the excess of the sales proceeds over the original cost. This will then be reduced by the PPR exemption and the letting exemption.
- The PPR exemption is calculated by assuming that the gain has accrued evenly over the period of ownership, i.e. from 1 July 1990 until the sale of the property. It exempts the total of the following:
 - The part of the gain which accrued from 1 July 1990 until 5 April 2013 (i.e. prior to the date on which the rooms were first rented out).
 - 70% (the proportion of the property occupied by Kesme and Soba) of the gain which accrued during the period from 6 April 2013 until the date three years prior to the date of sale; and
 - The part of the gain which accrued during the last three years of ownership.
- That part of the gain not covered by the PPR exemption (i.e. the 30% of the gain which accrued during the period from 6 April 2013 until the date three years prior to the date of sale) is then reduced by the letting exemption. This is equal to the lowest of:
 - The PPR exemption (as calculated above).
 - The part of the gain not covered by the PPR exemption (which is attributable to the letting).
 - £40,000.
- The deduction of the letting exemption cannot create a loss.

(c) Soba

Election to be treated as UK domiciled

This election will remove the limit of £325,000 on the 100% spouse exemption which would otherwise apply on transfers from Kesme to Soba. It will also mean that any overseas assets owned by Soba will be subject to UK inheritance tax in the future.

Tutorial note: *The limit of £325,000 on the 100% spouse exemption applies where the transferor spouse is UK domiciled and the transferee spouse is non-UK domiciled.*

Value of the residue of the estate

Soba will receive the residue of the estate, i.e. the estate less the gift to the daughter and the inheritance tax on that gift.

| | |
|--|----------------|
| | £ |
| Kesme's house, land and chattels | 1,280,000 |
| Less: Gross gift to daughter (W) | (400,000) |
| Residue of the estate received by Soba | <u>880,000</u> |

Working

| | |
|---------------------------------|----------------|
| | £ |
| Legacy to daughter | 370,000 |
| Less: nil rate band | (325,000) |
| | <u>45,000</u> |
| Inheritance tax at 40/60 | <u>30,000</u> |
| Gross gift (£370,000 + £30,000) | <u>400,000</u> |

Tutorial notes:

1. *The inheritance tax due on the specific gift to the daughter will be paid out of the residue of the estate, such that it will be borne by Soba. Because the residue of the estate is exempt, due to the spouse exemption, the gift must be grossed up.*
2. **Proof of Kesme's IHT liability**

| | |
|---|----------------|
| | £ |
| Kesme's estate | 1,280,000 |
| Less: legacy to Soba (above) – spouse exemption | (880,000) |
| | <u>400,000</u> |
| Less: nil rate band | (325,000) |
| | <u>75,000</u> |
| Inheritance tax at 40% | <u>30,000</u> |

5 Charlotte

(a) Value added tax (VAT) flat rate scheme

Bamburg Ltd will be permitted to join the flat rate scheme provided its taxable supplies for the next year are not expected to exceed £150,000. On the basis that its budgeted taxable supplies for the year ending 31 March 2015 are expected to be £114,000 (£120,000 – £6,000), it is likely that this condition will be satisfied.

Bamburg Ltd currently pays VAT to HM Revenue and Customs (HMRC) equal to the output tax on its standard rated sales less its recoverable input tax.

Under the flat rate scheme, the company would pay HMRC a fixed percentage of the total of its VAT inclusive sales. Exempt supplies are included in sales for this purpose. The percentage will depend on the particular business sector in which Bamburg Ltd operates.

Whether or not it is financially beneficial for Bamburg Ltd to join the flat rate scheme will depend on the percentage which it is required to use. However, the scheme is intended to reduce administration and any financial benefit is unlikely to be significant.

(b) Implications of selling the 'Cara' machine

The balance on the main pool of Bamburg Ltd is nil. Accordingly, the sale of the machine will result in a balancing charge equal to the sales proceeds received of £80,000. This will increase the taxable trade profit of Bamburg Ltd.

The 'Cara' machine is a depreciating asset for the purposes of rollover relief. Accordingly, the chargeable gain of £13,000 which was deferred in respect of the purchase of the 'Cara' machine will become chargeable when the machine is sold. This will increase the taxable total profit of Bamburg Ltd in the year of sale.

No capital loss will arise on the sale of the machine because it will have qualified for capital allowances.

Even if a capital loss were to arise in respect of the sale, it could only be offset against chargeable gains and not against profits generally.

In summary, Bamburg Ltd will receive proceeds of £80,000 but will have to pay additional corporation tax of £18,600 ((£80,000 + £13,000) x 20%).

Once the machine has been sold, Bamburg Ltd will have to pay rent in respect of the replacement machine. This represents an outflow of cash for the company, although it will be an allowable deduction when computing the company's taxable trading profit.

(c) (i) Bamburg Ltd to make an additional payment to Charlotte of £14,000

Payment of bonus

| | £ |
|---|---------------|
| Bonus required (£14,000/(100 – 42%)) | 24,138 |
| Employer's national insurance contributions (£24,138 x 13.8%) | 3,331 |
| | <u>27,469</u> |
| Less: Reduction in corporation tax (£27,469 x 20%) | (5,494) |
| Total cost to Bamburg Ltd | <u>21,975</u> |

Payment of dividend

| | |
|--|---------------|
| Cash dividend required (£14,000/(100 – 25%)) | 18,667 |
| Total cost to Bamburg Ltd | <u>18,667</u> |

Accordingly, it would be cheaper for Bamburg Ltd to pay Charlotte a dividend rather than a bonus.

Tutorial notes:

1. *Charlotte's salary of £46,000 will mean that the bonus will be subject to income tax at 40% and national insurance contributions at 2%.*
2. *The effective rate of income tax suffered by a higher rate taxpayer on dividend income is 25% (100/90 x (32.5% – 10%)).*

(ii) Tax implications of Bamburg Ltd making a loan of £14,000 to Charlotte

Charlotte

The interest-free loan will result in an annual employment income benefit for Charlotte because she is an employee of Bamburg Ltd. The benefit will be £560 (£14,000 x 4%) on which Charlotte will have to pay income tax at 40%.

Bamburg Ltd

Bamburg Ltd is a close company as it is wholly owned and controlled by Charlotte. When a close company makes a loan to a participator (e.g. a shareholder), it must pay HMRC an amount equal to 25% of the loan, i.e. £3,500. This will be payable at the same time as Bamburg Ltd's corporation tax liability, i.e. on 1 January 2016.

Bamburg Ltd will also have to pay class 1A national insurance contributions of £77 (£560 x 13.8%) in respect of the loan benefit. These contributions will be allowable when computing the company's taxable trading profits.

The payment to HMRC will be required even though the loan will be for less than £15,000. This is because Charlotte owns more than 5% of the company.

**Professional Level – Options Module, Paper P6 (UK)
Advanced Taxation (United Kingdom)**

June 2014 Marking Scheme

| | <i>Available</i> | <i>Maximum</i> |
|---|------------------|------------------|
| 1 (a) (i) Income tax position | | |
| Basis periods | 2 | |
| Trading income | 1.5 | |
| Capital allowances | 3 | |
| Overlap profits | 1 | |
| Cessation on 31 January 2015 | | |
| Income tax payable | 1 | |
| Cessation on 30 April 2015 | | |
| Income tax payable | 1 | |
| Capital gains tax position | | |
| Capital gains | 2.5 | |
| Capital gains tax | 1.5 | |
| Availability of entrepreneurs' relief | 2 | |
| Summary | 3 | |
| Assumption | 1 | |
| | <u>19.5</u> | 17 |
| (ii) Sale on 31 January 2015 | 1.5 | |
| Sale on 30 April 2015 | | |
| Charge VAT unless it is a transfer of a going concern | 1 | |
| Conditions (one mark each, maximum three marks) | 3 | |
| | <u>5.5</u> | 5 |
| (b) Death prior to disposal of business | 2 | |
| Death post disposal of business | | |
| Value of gift | 1.5 | |
| Annual exemptions | 1 | |
| Business property relief | 1.5 | |
| Taper relief | 1 | |
| Nil rate band | 1.5 | |
| Inheritance tax liabilities | 2 | |
| | <u>10.5</u> | 9 |
| Approach to problem solving | 1 | |
| Clarity of calculations | 1 | |
| Effectiveness of communication | 1 | |
| Overall presentation | 1 | |
| | <u>4</u> | 4 |
| Total | | <u>35</u> |

| | <i>Available</i> | <i>Maximum</i> |
|---|------------------|----------------|
| 2 (a) Loss of Akia Ltd | | |
| Offset against total profits of Akia Ltd | 2 | |
| Group relief | | |
| Members of group and consortium | 2 | |
| Opus Ltd | 2.5 | |
| Binni Ltd | 1.5 | |
| Ribe Ltd | 1 | |
| Lido Ltd chargeable gain | 2 | |
| Loss carried forward | 2 | |
| Loss of Ribe Ltd | 1 | |
| Capital allowances | 2 | |
| | <u>16</u> | 14 |
| (b) Sale on 30 June 2014 | 1.5 | |
| Sale on 30 April 2015 | 3 | |
| Comparison | 1 | |
| | <u>5.5</u> | 5 |
| (c) Interest on underpaid tax | 2 | |
| Action required | | |
| Necessary to disclose | 2 | |
| Implications of failing to disclose | 3.5 | |
| | <u>7.5</u> | 6 |
| Total | | <u>25</u> |
| | | |
| 3 (a) Vouchers to purchase childcare | | |
| Taxable employment income | 1 | |
| Availability of exemption | 1 | |
| Amount of exemption | 2 | |
| Payments for working from home | 2.5 | |
| | <u>6.5</u> | 6 |
| (b) (i) Qualifying company | 3 | |
| Qualifying employees | 2 | |
| | <u>5</u> | 4 |
| (ii) Grant of options | 1 | |
| Exercise of options | 1.5 | |
| Sale of shares | 3 | |
| | <u>5.5</u> | 5 |
| (c) Statutory redundancy | 1 | |
| Additional payment | 3 | |
| Continued use of car | 2 | |
| | <u>6</u> | 5 |
| Total | | <u>20</u> |

| | <i>Available</i> | <i>Maximum</i> |
|--|------------------|------------------|
| 4 (a) Rent-a-room relief | | |
| Availability | 1 | |
| Operation | 1.5 | |
| Claim | 1.5 | |
| Pension income | 1 | |
| Property business income | 0.5 | |
| 8% loan stock | 2 | |
| Personal allowance | 1.5 | |
| | <u>9</u> | 8 |
| (b) Situation prior to letting the rooms | 1 | |
| Principal private residence exemption | 3 | |
| Letting exemption | 3 | |
| | <u>7</u> | 6 |
| (c) Election to be treated as UK domiciled | 2.5 | |
| Value of assets | | |
| Calculation of amount received by Soba | 1.5 | |
| Inheritance tax liability | 2 | |
| | <u>6</u> | <u>6</u> |
| Total | | <u>20</u> |
| | | |
| 5 (a) Eligibility | 1.5 | |
| VAT due normally | 1 | |
| VAT due under the flat rate scheme | 2.5 | |
| Conclusion | 1 | |
| | <u>6</u> | 5 |
| (b) One mark for each relevant point – maximum five marks | 5 | |
| | <u>5</u> | 5 |
| (c) (i) Payment of bonus | 3.5 | |
| Payment of dividend | 2 | |
| Conclusion | 0.5 | |
| | <u>6</u> | 5 |
| (ii) Charlotte | 1.5 | |
| Bamburg Ltd | | |
| Close company loan to participator | 2.5 | |
| Class 1A national insurance contributions | 1 | |
| Exemption not applicable | 1 | |
| | <u>6</u> | <u>5</u> |
| Total | | <u>20</u> |