
Answers

1 Jonny

Memorandum

To The files
Prepared by Tax senior
Date 10 September 2015
Subject Jonny – New business
Inheritance tax
Other matters

(a) Unincorporated business

(i) Jonny's post-tax income

Weak demand – taxable trading profit/(loss) for the first two tax years

	£	£
2015/16 (1 November 2015 to 5 April 2016) Loss (£15,200 x 5/8)		<u>(9,500)</u>
2016/17 (1 November 2015 to 31 October 2016) 1 November 2015 to 30 June 2016 Loss	(15,200)	
Less: Recognised in 2015/16	<u>9,500</u>	
		(5,700)
1 July 2016 to 31 October 2016 Profit (£18,000 x 4/12)		<u>6,000</u>
Profit		<u>300</u>

Total income tax payable/refundable

	Note	2015/16 £	2016/17 £	Total £
Strong demand				
Taxable trading profit		5,750	19,200	
Income tax (payable)/refundable	1, 2	Nil	(1,840)	(1,840)
Weak demand				
Taxable trading profit/(loss)		(9,500)	300	
Income tax (payable)/refundable	3, 4	3,800	Nil	3,800

Notes

- Strong demand – 2015/16
The taxable trading income will be covered by the personal allowance.
- Strong demand – 2016/17
The tax liability will be £1,840 ((£19,200 – £10,000) x 20%).
- Weak demand – 2015/16
The taxable trading income will be nil, such that the tax liability will be nil.
The loss of £9,500 can be offset against:
 - Total income of 2015/16 and/or 2014/15.
In 2015/16, Jonny will have no taxable income.
In 2014/15, Jonny had employment income of £24,000 (12 x £2,000), such that he was a basic rate taxpayer.
 - Total income of 2012/13, 2013/14 and 2014/15 in that order.
In 2012/13, Jonny had employment income of £72,000 (12 x £6,000), such that he had more than £9,500 of income taxable at the higher rate.
The loss should therefore be offset in 2012/13, resulting in a tax refund of £3,800 (£9,500 x 40%).

4. Weak demand – 2016/17

The taxable trading income will be covered by the personal allowance.

Post-tax income position

	Strong £	Weak £
Aggregate budgeted net profit of the first two trading periods (per email)	39,200	2,800
Aggregate income tax (payable)/refundable for the first two tax years	(1,840)	3,800
Budgeted post-tax income	<u>37,360</u>	<u>6,600</u>

These post-tax income figures are an approximation because the total income arises in a period of 20 months (1 November 2015 to 30 June 2017), whereas the total income tax payable is in respect of only 17 months (five months in 2015/16 and the whole of 2016/17).

(ii) Salesmen

Proposed contractual arrangements indicating self-employed status

- The salesmen will be paid a fee by reference to the work they do. This will enable them to earn more by working more efficiently and effectively.
- The salesmen will not be paid sick pay or holiday pay; such payments would be indicative of employed status.
- The salesmen will be required to use their own cars.

Suggested changes in order to maximise the likelihood of the salesmen being treated as self-employed

- It would be helpful if the salesmen were able to work on the days they choose rather than being required to work on specific days.
- The salesmen should be required to provide their own laptop computer rather than borrowing one from Jonny.

Tutorial note: *The period for which the salesmen will work is not a relevant factor in determining their status. However, the longer they are appointed for, the more likely it is that the factors indicating employment (for example, the degree of control over the worker) will be present.*

(iii) New contracts for the business

- ACCA's *Code of Ethics and Conduct* includes confidentiality as one of the fundamental principles of ethics on which we should base our professional behaviour.
- Where we have acquired confidential information as a result of our professional and business relationships, we are obliged to refrain from using it to our own advantage or to the advantage of third parties.
- This principle of confidentiality applies to both ex-clients and continuing clients.
- As a result of this, we should not use any confidential information relating to our existing clients or ex-clients to assist Jonny.
- We are permitted to use the experience and expertise we have gained from advising our clients.

(b) Jonny's inheritance from his mother

Errors identified

1. Chattels (for example, furniture, paintings and jewellery) with a value of less than £6,000 are not exempt for the purposes of inheritance tax (although they are exempt for the purposes of capital gains tax).
2. The annual exemption is not available in respect of transfers on death.
3. The reduced rate of inheritance tax of 36% will apply. This is because:
 - the chargeable estate, before deduction of the charitable donation but after deduction of the nil rate band, is £689,000 (£619,000 (£591,000 + £25,000 + £3,000) + £70,000); and
 - the gift to the charity of £70,000 is more than 10% of this amount.

Value of inheritance receivable by Jonny

	£
Chargeable estate per draft computation	892,000
No exemption for chattels valued at less than £6,000	25,000
No annual exemption	3,000
	<u>920,000</u>
Less: Nil rate band	(301,000)
	<u>619,000</u>
Inheritance tax at 36%	<u>222,840</u>
Assets inherited by Jonny (£530,000 + £400,000 + £40,000 + £20,000 – £70,000)	920,000
Less: Inheritance tax payable	(222,840)
Inheritance receivable by Jonny	<u>697,160</u>

2 Sprint Ltd and Iron Ltd

(a) Iron Ltd – corporation tax payable for the period ending 30 June 2016

	Year ending 29 February 2016 £	4 months ending 30 June 2016 £
Trading income		
£30,000 x 12/16	22,500	
£30,000 x 4/16		7,500
Chargeable gains (below)		
Industrial building	87,435	
Fixed machinery	0	
Crystallisation of deferred gain re sale of fixed machinery	3,200	
	<u>113,135</u>	<u>7,500</u>
Taxable total profits		
Upper limit (£1,500,000/3 : £1,500,000/3 x 4/12)	500,000	166,667
Lower limit (£300,000/3 : £300,000/3 x 4/12)	100,000	33,333
	Marginal	Small
Corporation tax payable		
£113,135 x 21%/£7,500 x 20%	23,758	1,500
Less: Marginal relief		
((£500,000 – £113,135) x 1/400)	(967)	–
	<u>22,791</u>	<u>1,500</u>
Due date	1 December 2016	1 April 2017
Chargeable gains		
	Industrial building	Fixed machinery
	£	£
Proceeds	160,000	14,000
Less: Cost (£100,000 – £31,800)	(68,200)	(13,500)
Indexation allowance (June 2012 to December 2015)		
(0.064 ((257.2 – 241.8)/241.8) x £68,200)	(4,365)	
(0.064 x £13,500 – but restricted because indexation allowance cannot create a loss)		(500)
Chargeable gain	<u>87,435</u>	<u>0</u>

(b) Ownership of Iron Ltd

Ongoing ownership of Iron Ltd

Corporation tax

Iron Ltd will be associated with Sprint Ltd (and consequently Olympic Ltd) for the purposes of determining the rate of corporation tax payable by all three companies, regardless of whether the purchaser is Christina or Sprint Ltd. This is because Christina will have effective control of all three companies in both situations. Accordingly, when determining the rate of corporation tax payable, the corporation tax lower and upper limits will be divided by three.

It would be advantageous for Sprint Ltd, rather than Christina, to purchase Iron Ltd for the following reasons.

- It is possible that Iron Ltd will make a trade loss for the period ending 30 June 2016. If this were to occur, a proportion of the loss could be surrendered by way of group relief to Sprint Ltd and/or Olympic Ltd and be deducted in arriving at the taxable total profits of the recipient company. Whilst all three companies remain in the group, group relief would also be available between them in respect of any losses in future periods.
- Iron Ltd will join Sprint Ltd's capital gains group on 1 November 2015. The capital loss to be made by Sprint Ltd on the sale of the warehouse could therefore be relieved against the chargeable gains to be realised by Iron Ltd on the sale of the industrial building and the fixed machinery. This would reduce the corporation tax liability of Iron Ltd by £7,764 ($£22,791 - ((£113,135 - £38,000) \times 20\%)$).
- A gain made by one of the companies in the group on the disposal of a qualifying business asset (land, buildings or fixed machinery used in the business) could be deferred if a qualifying business asset is purchased by any other company in the group during the qualifying period.
- Any future transfers of assets from one group company to another would take place on a no gain, no loss basis.

There is a possible disadvantage in Iron Ltd joining the Sprint Ltd group of companies in relation to capital allowances. The annual investment allowance will be split between the three companies if they are members of a group, whereas an additional full annual investment allowance would be available to Iron Ltd if Christina were to own Iron Ltd personally (unless Iron Ltd were to share premises or carry on activities similar to those of Sprint Ltd or Olympic Ltd).

Value added tax (VAT)

It may be beneficial for Sprint Ltd and Iron Ltd (and possibly Olympic Ltd) to register as a group for the purposes of VAT. This is because it would remove the need for Iron Ltd to charge VAT on the sales it makes to Sprint Ltd. This will, however, be possible regardless of who owns Iron Ltd because Christina will have effective control of all three companies in both situations.

Sale of Iron Ltd

Sprint Ltd owns Iron Ltd

Any chargeable gain (or loss) on the sale of the shares will be exempt due to the substantial shareholding exemption (SSE). This exemption will be available because Sprint Ltd will have owned at least 10% of the ordinary share capital of Iron Ltd for more than a year and both companies are trading companies.

Although the existence of the SSE would appear to be a significant advantage, it should be recognised that the proceeds of sale will then need to be transferred to Christina. This could be carried out via, for example, the payment of a dividend to Christina. As Christina is a higher rate taxpayer, she would have an income tax liability of 25% or even 30-55% of the dividend received.

Tutorial notes:

1. *The rate of income tax payable by a higher rate taxpayer on dividend income is 25% ($100/90 \times (32.5\% - 10\%)$). However, the dividend could cause Christina to become an additional rate taxpayer; the rate of income tax payable by an additional rate taxpayer on dividend income is 30.55% ($100/90 \times (37.5\% - 10\%)$).*
2. *Credit was also available for reference to other ways in which the proceeds of sale could be transferred to Christina, for example, via the payment of a bonus.*

Christina owns Iron Ltd personally

On a sale by Christina of the shares in Iron Ltd, there will be a chargeable gain equal to the excess of the sales proceeds over the price paid for the shares. This gain, after the deduction of any annual exempt amount not used against any other gains, will be subject to capital gains tax at 10% due to the availability of entrepreneurs' relief.

Entrepreneurs' relief will be available because Iron Ltd is a trading company and Christina will have owned at least 5% of its shares for more than a year, and Christina will be a director of Iron Ltd.

Tutorial note: *It can be seen from the marking guide that it was not necessary to make all of the above points in order to score full marks.*

(c) VAT registration

Iron Ltd should be monitoring the level of its taxable supplies (excluding sales of capital assets), as opposed to its cash receipts, in order to determine when it needs to register for VAT.

The implications of registering late are:

- Iron Ltd will be required to account for output tax on the sales it has made after the date on which it should have been registered. This will be a cost to Iron Ltd unless it is able to recover the VAT from its customers.
- A penalty may be charged for failing to register by the appropriate date. This penalty would be a percentage of the potential lost revenue where the percentage depends on the reason for the late registration.
- Interest may be charged in respect of the VAT paid late.

3 Cinnabar Ltd

(a) (i) Research and development expenditure

The computer hardware qualifies for a 100% capital allowance as capital expenditure on an asset related to research and development.

As Cinnabar Ltd is a small enterprise for research and development purposes, the revenue expenditure which is directly related to undertaking research and development activities qualifies for an additional 125% deduction in calculating its taxable trading income. This additional deduction applies to the software and consumables and the staff costs. However, as the external contractor is provided by an unconnected company, only £6,500 (65% of the £10,000 fee) will qualify for this additional deduction.

The rent payable is not a qualifying category of expense, so is not eligible for the additional deduction.

The total deduction from taxable trading profit for the year ended 31 March 2015 is therefore £416,125 (£228,000 + 125% x £(18,000 + 126,000 + 6,500)).

(ii) Intra-group transfer of an intangible asset

As Cinnabar Ltd owns more than 75% of Lapis Ltd, the intangible asset will be treated for corporation tax purposes as having been transferred intra group at its tax written down value, thereby giving rise to neither profit nor loss in Cinnabar Ltd's corporation tax computation.

(b) Disposal of Garnet Ltd shares

A chargeable gain will arise on the proposed disposal in November 2015, calculated as follows:

	£
Sale proceeds	148,000
Less: Cost £120,000 x 2/3	(80,000)
Indexation allowance 0.1903 x £80,000	(15,224)
Chargeable gain	52,776
Corporation tax payable (£52,776 x 21%)	11,083
After-tax proceeds (£148,000 – £11,083)	136,917

The substantial shareholding exemption would not be available in respect of a disposal in November 2015. This is because Cinnabar Ltd's shareholding was reduced to 8% following the disposal on 20 October 2014 and consequently it has not held at least 10% of the shares in Garnet Ltd for a continuous 12-month period in the two years prior to disposal.

As Cinnabar Ltd held 12% of the shares prior to the first disposal on 20 October 2014, the sale should be brought forward to a date prior to 20 October 2015 in order for the substantial shareholding exemption to apply to the sale. In this case, Cinnabar Ltd's corporation tax liability in relation to the disposal of these shares will be reduced to nil.

Tutorial note: *The shares in Garnet Ltd are in the FA 1985 share pool. Accordingly, the indexation factor is not rounded to three decimal places.*

(c) Loss relief implications of the alternative structures

Structure 1:

Under this structure, Amber Ltd will own more than 75% of the shares in Beryl Ltd, so Beryl Ltd will be in a group with Amber Ltd for the purposes of group relief for trading losses. Accordingly, none of Beryl Ltd's trading loss will be available for surrender to Cinnabar Ltd.

Structure 2:

Under this structure, Beryl Ltd will be a consortium-owned company, with Amber Ltd and Cinnabar Ltd as the consortium members. This is because each of the companies owns at least 5% of the shares in Beryl Ltd, and together they hold at least 75% of the shares.

Beryl Ltd's trading loss for the year ending 31 December 2016 may be surrendered to the consortium members according to their respective shareholdings. Cinnabar Ltd may therefore claim a maximum of £19,200 (24% of Beryl Ltd's loss of

£80,000) in respect of this year. Relief will be taken against Cinnabar Ltd's taxable total profits for the corresponding accounting period(s).

As Cinnabar Ltd prepares accounts to 31 March annually, the maximum loss which can be claimed for relief in the year ending 31 March 2016 will be the lower of £4,800 (3/12ths of the available loss of £19,200) and 3/12ths of Cinnabar Ltd's taxable total profit for the year ending 31 March 2016. Similarly, the maximum loss which can be claimed for relief in the year ending 31 March 2017 is the lower of £14,400 (9/12ths of £19,200) and 9/12ths of Cinnabar Ltd's taxable total profit for the year ending 31 March 2017.

Cinnabar Ltd expects to pay corporation tax at the main rate, so as it has one associated company (Lapis Ltd), its taxable total profit must exceed the upper limit of £750,000 (£1,500,000/2). Therefore, the loss relief must be the lower figure for each 12-month period, which will be £4,800 in the year ending 31 March 2016 and £14,400 in the year ending 31 March 2017.

4 Hyssop Ltd

(a) Assistance with home to work travel costs for Corin

(i) Cost to Corin

Alternative 1 – Provision of a motorcycle

Corin is a higher rate taxpayer, so will pay income tax at 40% on the annual taxable benefit. This will be £1,264 (£3,160 x 40%).

Corin will have no national insurance liability in respect of this benefit, so the total cost to him is £1,264.

Alternative 2 – Payment towards the cost of driving and provision of parking place

Provision of a parking place at or near an employee's normal place of work is an exempt benefit for income tax.

Corin will pay income tax at 40% on the cash received as reimbursement of his driving costs, together with Class 1 national insurance contributions at 2%. This will give rise to a total tax cost of £941 (£2,240 x 42%).

The additional driving costs not reimbursed are £580 (£2,820 – £2,240). The total cost to Corin of this option is therefore £1,521 (£941 + £580).

The most cost efficient option for Corin is therefore provision of the motorcycle.

Tutorial note: *The statutory mileage rates are not relevant in this case as the driving costs are not related to journeys made in the course of Corin carrying out his duties of employment.*

(ii) Cost to Hyssop Ltd

Alternative 1 – Provision of a motorcycle

Hyssop Ltd will have to pay Class 1A national insurance contributions of £436 (£3,160 x 13.8%) in respect of the provision of the motorcycle. The total cost to Hyssop Ltd is therefore £3,596 (£3,160 + £436).

Alternative 2 – Payment towards the cost of driving and provision of parking place

As the provision of the parking place is an exempt benefit for income tax, there will be no Class 1A liability for Hyssop Ltd.

Hyssop Ltd will have a Class 1 national insurance liability in respect of the reimbursement of driving costs. This will be £309 (£2,240 x 13.8%).

The total cost to Hyssop Ltd is therefore £3,469 (£2,240 + £309 + £920).

The most cost efficient option for Hyssop Ltd is therefore the payment towards the cost of driving and provision of the parking place.

Hyssop Ltd will be able to deduct all the costs for corporation tax purposes under both options.

Tutorial note: *As the amounts are deductible for corporation tax purposes under both options, there is no need to calculate the after-tax cost to Hyssop Ltd.*

(b) Corporation tax implications of the acquisition of the 40-year lease

As Hyssop Ltd has paid a premium on the grant of a short lease on a property which is going to be used in its trade, a deduction is available for each year of the lease in calculating Hyssop Ltd's taxable trading income.

The annual deduction is calculated as
$$\frac{\text{Amount of premium taxed as income on the landlord}}{\text{Number of years of the lease}}$$

The amount of the premium which is taxed as income on the landlord is £57,200 (£260,000 – (£260,000 x (40 – 1) x 2%)).

The annual deduction available to Hyssop Ltd is £1,430 (£57,200/40).

As the lease was only acquired on 1 February 2015, the deduction available in the year ended 31 December 2015 is restricted to £1,311 ($£1,430 \times 11/12$).

The factory is used in Hyssop Ltd's trade, so the lease is a qualifying business asset, and it was acquired within the 12 months before the disposal of the warehouse. Therefore the full business use element of the gain arising may be deferred to the extent that the proceeds relating to the business use of the warehouse have been reinvested in the lease.

The warehouse will have been owned by Hyssop Ltd for four years (1 January 2012 to 31 December 2015).

The warehouse has been used by Hyssop Ltd in its trade for three years (1 January 2012 to 31 December 2014).

The proceeds relating to the business use element of the gain are £236,250 ($75\% \times £315,000$). This is less than the £260,000 premium reinvested in the acquisition of the lease, therefore the full 75% of the chargeable gain relating to the business use of the warehouse can be deferred against the acquisition of the lease. Accordingly, £12,390 ($£16,520 \times 75\%$) may be deferred.

The lease is for less than 60 years and so is a wasting asset for capital gains purposes. Accordingly, the gain will be deferred until the earliest of:

- The date of disposal of the lease
- The date the leased factory ceases to be used in Hyssop Ltd's business
- 1 February 2025 (ten years after the acquisition of the lease).

The remaining gain of £4,130 ($£16,520 \times 25\%$), relating to the non-business use, will be included in Hyssop Ltd's corporation tax computation for the year ending 31 December 2015.

(c) Value added tax (VAT) implications of the disposal of the warehouse

At the date of sale, the warehouse is more than three years old. Accordingly, because Hyssop Ltd has not opted to tax it, the disposal will be exempt from VAT.

As the warehouse was newly constructed when it was purchased, VAT of £54,000 ($£270,000 \times 20\%$) would have been charged and, as the warehouse was used in its standard-rated business, this would have been wholly reclaimed by Hyssop Ltd in the year ended 31 December 2012.

As the disposal is exempt from VAT, VAT will have to be repaid to HM Revenue and Customs (HMRC) as the warehouse is deemed to have 0% taxable use for the remainder of the ten-year adjustment period under the capital goods scheme. The amount of £32,400 ($£54,000 \times 6/10 \times (100\% - 0\%)$) will be repayable to HMRC as a result of the disposal.

Tutorial note: A further £5,400 ($£54,000 \times 1/10 \times (100\% - 0\%)$) will also be repayable to HMRC in respect of the year ending 31 December 2015 as the warehouse has been rented out throughout this year, with no option to tax.

5 Stella and Maris

(a) Stella – Income after tax and pension contributions 2015/16

	£
Employment income	80,000
Property income	92,000
Net income	<u>172,000</u>
Less: Personal allowance (W1)	<u>(10,000)</u>
Taxable income	<u>162,000</u>

Income tax liability: (W2)

	£
£111,865 x 20%	22,373
<u>£50,135 x 40%</u>	<u>20,054</u>
£162,000	42,427
Add: Additional charge: £20,000 x 40% (W3)	<u>8,000</u>
Income tax liability	<u>50,427</u>

Income after tax and pension contributions is £47,573 ($£172,000 - £50,427 - £74,000$) (W4).

W1: Personal allowance

The pension contributions qualifying for tax relief cannot exceed Stella's net relevant earnings, which are £80,000.

Adjusted net income is £92,000 ($£172,000 - 80,000$). Therefore there is no restriction of the personal allowance.

W2: Extending the basic and higher rate bands

The basic rate band is extended to £111,865 (£31,865 + £80,000).

The higher rate band is extended to £230,000 (£150,000 + £80,000).

W3: Excess contributions

	£
Annual allowance for 2015/16	40,000
Unused annual allowance for three previous tax years:	
2012/13 (£50,000 – £40,000)	10,000
2013/14 (£50,000 – £40,000)	10,000
2014/15 (£40,000 – £40,000)	0
	<hr/>
Maximum gross pension contribution in 2015/16	60,000

Excess pension contribution is £20,000 (£80,000 – £60,000).

W4: Pension contributions paid

The amount actually paid in respect of the pension contribution by Stella is £74,000 (£64,000 (£80,000 x 80%) + £10,000).

Marking note: Credit was also awarded to candidates who calculated the Class 1 national insurance contributions on Stella's employment income.

(b) (i) Maris – Maximum receivable as a lump sum

The value of Maris's pension fund exceeds the lifetime allowance of £1,250,000.

Accordingly, the maximum lump sum which she can take tax-free is restricted to £312,500 (25% x £1,250,000). The balance of the lifetime allowance cannot be taken as a lump sum.

The excess of the fund over the lifetime allowance may be taken as a lump sum, subject to an income tax charge at 55% on the value of this excess. Maris will therefore receive an additional £135,000 (45% x (£1,550,000 – £1,250,000)).

Maris's total receipt is therefore £447,500 (£312,500 + £135,000).

Tutorial note: The balance of the fund up to £1,250,000 will be vested to provide pension income benefits in the future.

(ii) Inheritance tax – Lifetime exemptions available

Small gift exemption

Maris can make exempt gifts valued at up to £250 each tax year to any number of recipients. If the total value of the gifts to any one recipient exceeds £250, the full value of the gifts will be taxable. The gifts can comprise either cash or shares.

Exemption for normal expenditure out of income

The following conditions must be satisfied for the gifts to be exempt:

- The gift is made as part of Maris's **normal** expenditure. As she is intending to make regular gifts to her family on their birthdays, she should be able to establish a regular pattern of giving.
- The gift is made out of income, not capital. Maris must therefore give cash, not part of her shareholdings.
- Maris is left with sufficient income to maintain her usual standard of living. As she appears to have fairly significant pension and savings income this condition should be satisfied.

There is no monetary limit on the amount of this exemption.

	<i>Available</i>	<i>Maximum</i>
1 (a) (i) Taxable trading profit/(loss) for weak demand	3	
Income tax payable or refundable		
Strong demand	2	
Weak demand	2	
Advice on use of loss		
Options available	3	
Recommendation	3	
Summary	1	
Calculation only an approximation	2	
	<u>16</u>	15
(ii) One mark for each relevant point	4	
	<u>4</u>	4
(iii) One mark for each relevant point	5	
	<u>5</u>	5
(b) Identification of errors	4.5	
Calculations		
Inheritance tax liability	2	
Inheritance receivable by Jonny	1.5	
	<u>8</u>	7
Followed instructions	1	
Clarity of explanation and calculations	1	
Problem solving	1	
Overall presentation	1	
	<u>4</u>	4
Total		<u>35</u>

	<i>Available</i>	<i>Maximum</i>
2 (a) Trading income	1	
Chargeable gains		
Industrial building	2	
Machinery	1.5	
Crystallisation of deferred gain	1	
Chargeable gains in correct period	0.5	
Corporation tax payable	3.5	
Due dates	1.5	
	<u>11</u>	10
(b) Ongoing		
Associates	1	
Group relief	2	
Relief for capital losses	2	
Rollover relief	1	
No gain, no loss transfers	1	
Annual investment allowance	1	
VAT group registration	2	
Sale of Iron Ltd		
Sprint Ltd owns Iron Ltd	3.5	
Christina owns Iron Ltd	2	
	<u>15.5</u>	12
(c) Taxable supplies as monitoring basis	1	
Implications of late registration	2.5	
	<u>3.5</u>	3
Total		<u>25</u>
3 (a) (i) Computer hardware – 100% capital allowance	1	
Revenue expenditure qualifying for additional deduction	3.5	
Calculation of total deduction	1	
	<u>5.5</u>	5
(ii) Intra-group disposal of intangible asset	2	
	<u>2</u>	2
(b) After-tax proceeds	2	
Advantage of disposal in October	3	
	<u>5</u>	5
(c) Structure 1	2	
Structure 2 – Consortium	2	
Relief available	5.5	
	<u>9.5</u>	8
Total		<u>20</u>

	<i>Available</i>	<i>Maximum</i>
4 (a) (i) Cost of motorcycle option	1.5	
Cost of driving costs reimbursement option	3	
Conclusion	<u>0.5</u>	
	<u>5</u>	5
(ii) Cost of provision of motorcycle	1.5	
Cost of driving costs reimbursement	1	
All costs deductible for corporation tax	0.5	
Conclusion	<u>0.5</u>	
	<u>3.5</u>	3
(b) Deduction:		
Available against taxable trading income	1	
Amount	3	
Deferral relief available	3	
Date gain crystallises	<u>2</u>	
	<u>9</u>	8
(c) Disposal exempt	1.5	
Initial reclaim	1	
Repayment of VAT reclaimed previously y/e 31 December 2015	<u>2</u>	
	<u>4.5</u>	4
Total		<u>20</u>
5 (a) Qualifying pension contributions	1.5	
Taxable income	2	
Excess pension contribution	3	
Income tax liability	2.5	
Net income after tax and pension contributions	<u>2</u>	
	<u>11</u>	10
(b) (i) Tax free amount	1.5	
Taxed amount	<u>2.5</u>	
	<u>4</u>	4
(ii) Small gift exemption	3	
Exemption for normal expenditure out of income	<u>4</u>	
	<u>7</u>	6
Total		<u>20</u>