

**ATX (UK) Practice Paper 2
(new format from June 2023)**

Prepared under FA2022

Section A – This question is compulsory and MUST be attempted

QUESTION 1

You should assume that today's date is 1 June 2023.

You are an ACCA student working for a firm of accountants. Joe Sands, the finance director of VNL Ltd, has had a meeting with your manager to discuss the liquidation of the company and Joe's future plans in terms of starting his own unincorporated business. In addition, Joe has asked whether your firm will be able to advise his mother, Fiona, who is returning to the UK after living overseas for several years.

Advice is required in respect of the following issues:

- the consequences of VNL Ltd disposing of certain intangible assets and the timing of a dividend payment;
- comparison of two alternative accounting dates for Joe's new business and the ability to be able to recover value added tax (VAT) on certain initial costs; and
- the basis of taxation which will apply to Fiona on her return to the UK and her projected income tax liability.

There are also some ethical issues to be considered if the firm is to accept Fiona as a new client.

The following exhibits, available on the left hand side of the screen, summarise the discussions between Joe and your manager on each of the relevant issues, and outline what you need to do.

1. VNL Ltd
2. Joe's future business plans
3. Fiona (Joe's mother)
4. Manager's email – outlining what you are required to do

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

1. VNL Ltd

Summary of points discussed in a meeting on 1 June 2023 and subsequent follow-up telephone conversation

Background

Joe advised me that the company's shareholders have decided to liquidate the company. A liquidator is to be appointed on 1 August 2023. The company will dispose of certain intangible fixed assets and will make certain payments to its shareholders.

Sale of intangible fixed assets

On 1 September 2020, VNL Ltd purchased the trade and assets of a business from an unrelated company. The assets included goodwill and a brand name, as detailed below. These assets will be sold on 31 July 2023.

	Goodwill	Brand name
	£	£
Sale proceeds	75,000	47,000
Cost	95,000	36,000
Amortisation since acquisition	19,000	5,760

Further advice – payments to the shareholders

An interim payment will be made to the shareholders followed by a final payment at the conclusion of the liquidation which will take place in February 2024. Joe has been asked to consider the possibility of making the interim payment prior to the appointment of the liquidator.

Additional information

There are some further details which you will require and I have obtained these from the client file for you. These are as follows:

- VNL Ltd is a trading company. It has always made significant trading profits and will be profitable in its final accounting period. It prepares accounts to 31 March each year.
- The amortisation of the goodwill was not a tax deductible expense for VNL Ltd.
- No election was made to write off the cost of the brand name at the 4% rate.
- The company's shareholders are all individuals, some of whom are employed by VNL Ltd, and include both basic rate and higher rate taxpayers.
- The shares in VNL Ltd were subscribed for prior to 17 March 2016, such that investors' relief will not be available in respect of any disposal.

2. Joe's future business plans

Points discussed in meeting on 1 June 2023

Background

Joe confirmed his intention to start trading as an unincorporated trader on 1 November 2023.

Tax adjusted trading profits (TATP)

In a prior meeting we had already established that, with an accounting date of 31 March (and making his first accounts up to 31 March 2024), his taxable trading profits based on the monthly budgeted TATP of the business would be:

Tax year:	2023/24	£24,500
	2024/25	£97,000

These calculations were based on the following monthly profit figures:

Period	Number of months	TATP per month £
1 November 2023 to 31 December 2023	2	4,000
1 January 2024 to 31 March 2024	3	5,500
1 April 2024 to 31 August 2024	5	7,500
From 1 September 2024	N/A	8,500

I have confirmed that all the above figures are still correct and therefore they do not need to be checked.

Joe has now realised that making his first accounts up to 31 July 2024 and continuing with an accounting date of 31 July would also be suitable commercially; he would therefore like some guidance from us as to which date he should choose.

Costs already incurred

Since 1 October 2022, Joe has been purchasing consultancy services every month in respect of the design and manufacture of the product the new business will be selling.

Business premises

A building for use as the business premises has been identified. It is a commercial property unit, which was constructed in 2006. Joe has agreed a price with the vendor of £190,000 plus value added tax (VAT). He intends to lease a third of the building to an unrelated business until his trading activities have grown sufficiently to require the use of the whole building.

Joe confirmed that his trading activity will be standard-rated for VAT purposes.

3. Fiona (Joe's mother)

Points discussed in meeting on 1 June 2023

Background

Joe provided the following background on his mother's situation.

Fiona is 74 years old and in poor health. She has lived in the country of Parella since 1991. She will move to the UK on 1 August 2023 and acquire a home there.

Fiona's domicile and residence status

Based on the facts provided by Joe, I have already established that, as a result of moving to the UK:

- Fiona will become UK resident on 1 August 2023 under the split year basis.
- Fiona will also be UK resident in the tax year 2024/25.
- Fiona is currently domiciled in Parella. However, once she becomes UK resident, Fiona will be deemed domiciled in the UK for the purposes of income tax and capital gains tax (CGT) because she was born in the UK with a UK domicile of origin.

Property and interest income

Fiona's anticipated income for the tax year 2024/25, the year after she moves to the UK, is set out below.

	£
Property income:	
Properties situated in the UK	26,000
Properties situated in Parella	31,000
Interest income:	
UK bank interest	1,700
Parellian bank interest	1,200

The income arising in Parella is stated gross of Parellian tax. Fiona will remit all of the rental income in respect of the properties situated in Parella to the UK. The interest arising on the Parellian bank accounts will be retained in Parella.

The rate of income tax in Parella is 18% and there is no double tax treaty between the UK and Parella.

4. Manager's email

To: Tax Senior
From: Tax Manager
Subject: Meeting with Joe Sands (VNL Ltd)
Date: 1 June 2023

Hi

I need you to prepare some notes in preparation for an internal team meeting to discuss the various points which Joe has raised. They should address the following issues:

(a) Liquidation of VNL Ltd (Exhibit 1)

(i) Sale of intangible fixed assets

Calculate the post-tax proceeds for VNL Ltd as a result of the sale of the intangible fixed assets.

(4 marks)

(ii) Timing of payments to shareholders

Explain the tax rates, taking into account any reliefs which may be available, which the shareholders will pay on the amounts received from VNL Ltd, depending on when the payment is made.

(7 marks)

(b) Unincorporated business (Exhibit 2)

(i) Accounting date

In order to assist Joe in choosing between the two alternative accounting dates of 31 March and 31 July:

- Calculate Joe's taxable trading profits for his first two tax years of trading if he were to adopt an accounting date of 31 July.

Note: You should base your calculations for the 31 July accounting date on the monthly tax adjusted trading profit (TATP) figures provided by Joe, and you should ignore the expenditure incurred prior to 1 November 2023.

- Without preparing any further calculations, comment on the possible effect on Joe's income tax liabilities for the first two tax years of trading of adopting a 31 July accounting date rather than one of 31 March.
- State TWO advantages, other than in relation to Joe's income tax liabilities, of him adopting an accounting date of 31 July rather than 31 March.

(8 marks)

(ii) Costs already incurred and the business premises

Explain whether or not Joe will be able to recover the related input tax for value added tax (VAT) purposes in respect of the consultancy costs already incurred and the planned purchase of the business premises.

(6 marks)

(c) Becoming Fiona's tax advisers (Exhibit 3)

Explain the actions which we should carry out before we become Fiona's tax advisers. I have already obtained proof of her address and her identity.

(5 marks)

(d) Taxation of overseas income (Exhibit 3)

- Explain why the remittance basis will be available to Fiona in the tax year 2024/25 and whether or not she will be subject to the remittance basis charge.

- Calculate Fiona's income tax liability for the tax year 2024/25 based on her anticipated income figures.

(10 marks)

The notes which you prepare will subsequently be distributed to all team members within our firm, so please do present them in a way which will be suitable for circulation

Tax Manager

Requirements:

You should assume that today's date is 1 June 2023.

Respond to the instructions in the email from your manager.

Note: The split of the mark allocation is shown in Exhibit 4 – Manager's email

(40 marks)

Professional marks will be awarded for demonstration of skill in communication, analysis & evaluation, scepticism and commercial acumen in your answer.

(10 marks)

(50 marks)

Section B – BOTH questions are compulsory and MUST be attempted

QUESTION 2

You should assume that today's date is 1 March 2024.

Nori, an individual, owns 75% of the ordinary shares in Samphire Ltd and the whole of the ordinary share capital of Kelp Ltd. Advice is required on;

- the cost for Samphire Ltd of gifting a computer, or, alternatively, making a loan to Nori; and
- the tax implications of Kelp Ltd replacing a factory and acquiring a new warehouse.

The following **exhibit**, available on the left hand side of the screen, provides information relevant to the question:

1. Samphire Ltd and Kelp Ltd

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Samphire Ltd and Kelp Ltd

Nori:

- Has been a director of Samphire Ltd for many years.

Samphire Ltd:

- Is a UK resident close trading company, which prepares accounts to 31 March annually.
- Will either gift a computer to Nori on 6 April 2024, or make a loan to Nori on the same date, to allow him to purchase a computer.

Alternative 1 – Samphire Ltd gifts the computer to Nori:

- The computer was purchased by Samphire Ltd in March 2023 for £2,600 and has a current market value of £1,500.
- Samphire Ltd has purchased no other plant and machinery for several years, and the written down value of its main pool at 6 April 2024 will be £nil.
- The sale proceeds for the purpose of capital allowances will be £nil.
- Nori's private use of the computer has been insignificant throughout Samphire Ltd's period of ownership.

Alternative 2 – Samphire Ltd makes a loan to Nori:

- On 6 April 2024 Samphire Ltd will make an interest-free loan of £1,500 to Nori.
- Samphire Ltd will write off the loan on 6 April 2026.

Kelp Ltd – disposal of lease on Factory 1:

- Kelp Ltd is a UK resident trading company.

- Kelp Ltd was assigned a 48-year lease on a factory building ('Factory 1') on 1 November 2017, for which it paid a premium of £165,000.
- Kelp Ltd used Factory 1 in its trade until 30 April 2023, since when it has been rented to tenants who are not connected with the company.
- On 1 November 2023 Kelp Ltd sold the lease with 42 years remaining for £206,000.

Kelp Ltd – acquisition of Factory 2:

- Kelp Ltd acquired a factory building ('Factory 2') from Samphire Ltd on 1 May 2023, and immediately started to use it in its trade.
- Samphire Ltd had acquired Factory 2 for £96,000 on 5 August 2014.
- Kelp Ltd paid £138,000 for Factory 2, which was its market value on 1 May 2023.

Kelp Ltd – acquisition of warehouse:

- Kelp Ltd will acquire a warehouse from an unconnected company for £78,000 on 1 April 2024.
- Kelp Ltd will occupy 70% of this warehouse for its own trade, and will rent out the remaining 30%.

Requirements:

You should assume that today's date is 1 March 2024.

(a) Explain, with supporting calculations, the total additional taxes payable by Samphire Ltd:

(i) If Samphire Ltd gifts the computer to Nori (Alternative 1);

(4 marks)

(ii) If Samphire Ltd makes a loan of £1,500 to Nori, and then writes off the loan on 6 April 2026 (Alternative 2).

(6 marks)

Note: Ignore value added tax (VAT).

(b)(i) Calculate the chargeable gain for Kelp Ltd on the sale of the lease on Factory 1.

(3 marks)

(b)(ii) Explain, with supporting calculations, the amount of the chargeable gain calculated in (b)(i) which will remain liable to corporation tax (if any), if Kelp Ltd claims the maximum amount of rollover relief available.

(7 marks)

Notes:

(1) The following lease percentages should be used, where necessary:

42 years	96.593
48 years	99.289

(2) The following indexation factors should be used, where necessary:

August 2014 to December 2017	0.082
November 2017 to December 2017	0.008

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer.

(5 marks)

(25 marks)

QUESTION 3

You should assume that today's date is 1 December 2023.

Daikon, the managing director of Yacon Ltd, has requested advice on;

- the tax implications of Yacon Ltd setting up a tax-advantaged share incentive scheme for its employees;
- the capital gains tax relief(s) available on the sale of his house; and
- the potential inheritance tax liability arising on the gift of an apartment.

The following **exhibit**, available on the left-hand side of the screen, provides information relevant to the question:

1. Yacon Ltd and Daikon

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Yacon Ltd and Daikon

Yacon Ltd:

- Is a UK resident, unquoted, trading company which is not part of a group.
- Is considering setting up either a company share option plan (CSOP), or a share incentive plan (SIP), both of which would be offered to selected employees.

Yacon Ltd – criteria for its tax-advantaged share incentive scheme:

- Employees will be selected to join the scheme dependent on their period of employment with the company.
- If the scheme is a CSOP, each employee will be offered options to purchase shares worth up to £3,000 each year.
- Employees will exercise the options five years after being granted them.
- If the scheme is a SIP, each employee will be given free shares worth up to £3,000 each year.
- Employees will remove the shares from the plan after five years.

Daikon:

- Was gifted an apartment by his aunt, Jicama, on 5 June 2021.
- Has never lived in this apartment.
- Will sell the house he currently lives in, and move into this apartment on 31 December 2023.

Daikon – sale of his current house:

- Daikon purchased this house on 1 July 2015 when he was employed overseas.
- Daikon did not own any other property between 1 July 2015 and 4 June 2021.
- The sale of the house on 31 December 2023 will give rise to a chargeable gain of £145,000, before any reliefs.

Daikon – occupation of his current house:

- Daikon moved into the house on 1 January 2016, on his return to the UK.
- Daikon has occupied the house since 1 January 2016, apart from the period from 1 July 2017 to 31 December 2018 when he was, once again, employed overseas.

- Daikon resumed exclusive occupation of the house on 1 January 2019.
- Since 1 April 2019, Daikon has let the basement of the house (which comprises 25% of the property) for residential use, retaining exclusive occupation of the remaining 75% for himself.

Gift of the apartment by Jicama:

- When Jicama gifted the apartment to Daikon on 5 June 2021, it was on condition of her continuing to live in the property for the foreseeable future.
- On 12 March 2023, Jicama began living with her sister, and she removed the condition she had previously imposed on the gift from that date.

Requirements:

You should assume that today's date is 1 December 2023.

(a) Explain whether (1) a company share option scheme (CSOP) and (2) a share incentive plan (SIP) will satisfy Yacon Ltd's criteria for a tax advantaged share incentive scheme, and the income tax implications for the employees of acquiring the shares in each case.

(8 marks)

(b) Calculate, with brief explanations, the private residence relief (PRR), and letting relief, which are available to reduce the chargeable gain on Daikon's sale of his house.

(7 marks)

(c) Explain the inheritance tax implications of Jicama's gift of the apartment to Daikon on 5 June 2021, if Jicama were to die in December 2026.

(5 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer.

(5 marks)

(25 marks)

Suggested solutions

Q1 Suggested Solution

Notes for meeting

For **The files**
Client **Joe Sands**
Prepared by **Tax senior**
Date **1 June 2023**

(a) Liquidation of VNL Ltd

(i) Sale of intangible fixed assets

	Goodwill	Brand	
	£	£	£
Sale proceeds on 31 July 2023	75,000	47,000	122,000
Cost	(95,000)		
Tax written down value (£36,000 – £5,760)		(30,240)	
(Loss) / profit	<u>(20,000)</u>	<u>16,760</u>	
Corporation tax at 19% on profit			(3,184)
Loss relieved against total profits at 19%			<u>3,800</u>
Post tax proceeds			<u>122,616</u>

Tutorial note: *The loss on the sale of the goodwill is a non-trading debit. This loss can be offset against the total income and gains of the current accounting period.*

(ii) Timing of payments to shareholders

Prior to the appointment of the liquidator

A payment made to the shareholders prior to the appointment of the liquidator will be subject to income tax as a dividend in the normal way.

The first £2,000 of an individual's dividend income in a tax year from all shareholdings is taxed at 0%. The excess over £2,000 will be taxed as a shareholder's top slice of income.

Any amount which falls into a shareholder's basic rate band will be subject to income tax at 8.75%. The balance of the dividend will be subject to income tax at 33.75%.

After the appointment of the liquidator

Once the liquidator has been appointed, amounts paid to shareholders will represent proceeds in respect of a part disposal of their shares for the purposes of capital gains tax (CGT).

Any amount of the chargeable gain which is not covered by the shareholder's annual exempt amount of £12,300 will be subject to CGT.

Where the disposal of the shares qualifies for business asset disposal relief, the whole of any chargeable gain (within the lifetime limit of £1,000,000) will be subject to CGT at 10% irrespective of whether the shareholders are basic rate or higher rate taxpayers.

As VNL Ltd is a trading company, business asset disposal relief will be available where:

- the shareholder had owned at least 5% of the company's ordinary share capital and been an officer or employee of the company for a period of at least two years prior to the cessation of VNL Ltd's trade, and
- the shares are disposed of within three years of the cessation of VNL Ltd's trade.

We would therefore need to establish if any individual shareholders satisfy these conditions.

Where business asset disposal relief is not available, the chargeable gain will be taxed after calculating tax on income, by reference to the income tax bands.

Any amount of the chargeable gain which falls into a shareholder's basic rate band will be subject to CGT at 10%. The balance of the chargeable gain will be subject to CGT at 20%.

(b) Unincorporated business

(i) Accounting date

Taxable trading profits in the first two tax years

		March	July (W)
		£	£
Tax year:	2023/24	24,500	30,278
	2024/25	<u>97,000</u>	<u>79,750</u>
Total		<u>121,500</u>	<u>110,028</u>

Working

£

Trading profit

Period ending 31 July 2024

1 November 2023 to 31 December 2023 (£4,000 x 2)	8,000
1 January 2024 to 31 March 2024 (£5,500 x 3)	16,500
1 April 2024 to 31 July 2024 (£7,500 x 4)	<u>30,000</u>
	<u>54,500</u>

Year ending 31 July 2025

1 August 2024 to 31 August 2024	7,500
1 September 2024 to 31 July 2025 (£8,500 x 11)	<u>93,500</u>
	<u>101,000</u>

Taxable trading profit

2023/24 – 1 November 2023 to 5 April 2024 (£54,500 x 5/9)	30,278
2024/25 – 1 November 2023 to 31 October 2024 (£54,500 + (£101,000 x 3/12))	<u>79,750</u>
	<u>110,028</u>

Possible effects on Joe's income tax liabilities of adopting a 31 July accounting date

- Joe's total taxable trading profits for the first two tax years would be lower if he were to adopt a 31 July accounting date.
- A 31 July accounting date results in a higher amount of taxable trading profits in the tax year 2023/24 and a lower amount in the tax year 2024/25.
 - As a result, Joe's income tax liability for the tax year 2023/24 would be higher than it would be with a 31 March accounting date.
 - However, depending on his other sources of income, Joe may be able to use more of his basic rate band in 2023/24 whilst having a lower amount subject to income tax at 40% in the following tax year.

Tutorial note: *Candidates who discussed the impact of overlap profits in the context of a change to a 31 July accounting date were also awarded credit*

Advantages of adopting a 31 July accounting date

- After the first tax year there will be a greater time period between earning profits and paying the tax due in respect of them.
- There will be a greater time period between knowing the amount of taxable profits and the end of the tax year. This time period can be used to plan Joe's affairs, for example, in respect of pensions.

(ii) Costs already incurred and the business premises

Recovery of input tax for the purposes of value added tax (VAT)

— Consultancy services

Joe will be able to recover input VAT in respect of services provided to him for business purposes in the six months prior to registering for VAT.

Accordingly, because Joe first incurred these costs more than six months ago, he should consider registering for VAT as soon as possible in order to recover as much of the input tax relating to the consultancy services as he can.

— Premises

The amount of input tax which Joe can recover will depend on whether or not he opts to tax the building for the purposes of VAT.

- If he opts to tax the building, he will be able to recover all of the input tax.
- Otherwise, he will only be able to recover two thirds of it.

This is because the granting of the lease will be an exempt supply unless an option to tax is made in respect of the building.

The building will not be subject to the capital goods scheme because its VAT exclusive cost will be less than £250,000.

(c) Becoming Fiona's tax advisers

The actions we should carry out before we become Fiona's tax advisers:

- We must give consideration to the fundamental principles of professional ethics, for example, integrity and professional competence and due care. This requires us to consider whether becoming tax advisers to Fiona would create any threats to compliance with these principles.

If any such threats are identified, we should not accept the appointment unless the threats can be reduced to an acceptable level via the implementation of safeguards.

Fiona's move to the UK will significantly affect her tax affairs, and we must be sure that we are able to deal with the technical aspects of these matters.

- We must assure ourselves that Fiona is not involved in any form of money laundering.
- We should obtain permission from Fiona to contact her existing tax advisers in order to ensure that there is nothing in the past which would preclude us from accepting the appointment on ethical grounds.
- We should issue a letter of engagement setting out the terms of our agreement with Fiona and our agreed responsibilities.

(d) Taxation of overseas income

Availability of the remittance basis

- The remittance basis is available where an individual is UK resident but not UK domiciled.
- Where an individual is UK resident and deemed domiciled in the UK, the remittance basis is only available if unremitted overseas income and gains in a tax year is less than £2,000.
In these circumstances the remittance basis applies automatically.
- Accordingly, for the tax year 2024/25, the amount of Fiona's taxable overseas income will be automatically calculated on the remittance basis. This is because her only unremitted overseas income will be her Parellian bank interest of £1,200.
- Fiona will not be subject to the remittance basis charge because she will qualify for the remittance basis automatically.

Fiona – income tax liability for the tax year 2024/25

	£	Working £
Property income:		
Properties in the UK	26,000	26,000
Properties in Parella	31,000	N/A
Interest income:		
UK bank interest	1,700	1,700
Parellian bank interest (unremitted)	—	—
Total income	58,700	27,700
Less: personal allowance	(12,570)	(12,570)
Taxable income	46,130	15,130

Property income		
£37,700 / £13,430 x 20%	7,540	2,686
£6,730 x 40%	2,692	—
Interest income		
£500 / £1,000 x 0%	0	0
£1,200 x 40% / £700 x 20%	<u>480</u>	<u>140</u>
	10,712	<u>2,826</u>
Double tax relief, the lower of:		
UK tax on overseas income		
£10,712 – £2,826 (W) = £7,886		
Parellian tax suffered		
£31,000 x 18% = £5,580	<u>(5,580)</u>	
Income tax liability	<u>5,132</u>	

Tutorial note: *the personal allowance will be given because the remittance basis is available automatically.*

Q1. Detailed Marking Guide

		Available	Maximum		
1	(a)	(i) Loss on sale of goodwill Profit on sale of brand Post tax proceeds	1		
			1		
			2		
			<hr/>		
			4	4	
			<hr/>		
		(ii) Prior to appointment After appointment	4		
			6		
			<hr/>		
			10	7	
		<hr/>			
(b)	(i) Taxable profits	Trading profit	3		
			Taxable trading profit	3	
		Comments	2		
		Advantages	2		
			<hr/>		
			10	8	
			<hr/>		
		(ii) Value added tax	Consultancy services	2	
			Premises	4	
			<hr/>		
		6	6		
		<hr/>			
(c)	Fundamental principles	3			
	Other matters	3			
		<hr/>			
		6	5		
		<hr/>			
(d)	Remittance basis	4			
	Calculation of income tax liability				
	Liability before double tax relief	3.5			
	Double tax relief	3.5			
		<hr/>			
		11	10		
		<hr/>			
	Professional skills marks (see below)	10			
		<hr/>			
		10	10		
		<hr/>			
TOTAL			50		

Question 1 - Analysis of professional skills marks

Communication

- General format and structure of meeting notes (e.g. use of headings/sub-headings to make meeting notes easy to refer to)
- Style, language and clarity (tone of meeting notes, presentation of calculations, appropriate use of the tools, easy to follow and more than a negligible amount of content)
- Effectiveness of communication (answer is relevant, specific rather than general and focused to the requirement)
- Adherence to specific instructions/ information provided in the scenario (e.g. not writing off the brand at 4%, considering no more than two advantages of a 31 July accounting date)

Analysis and evaluation

- Appropriate use of information to determine post-tax proceeds in part (a)
- Appropriate use of information when calculating assessable profits with a 31 July accounting date in part b(i)
- Appropriate use of information when establishing the UK liability on the overseas income for DTR purposes in part (d)
- Consideration of relevant factors when deciding whether or not the remittance basis charge applies to Fiona in part (d)

Scepticism

- Critical assessment of the potential for business asset disposal relief in part (a)(ii) and its application to the shareholders of VNL Ltd
- Recognition of the uncertainties in relation to the option to tax in part (b)(ii)

Commercial acumen

- Recognition of the importance of timing of VAT registration in order to maximise recovery of VAT on the consultancy costs in part (b)(ii)
- Effective use of information to determine the applicability of the capital goods scheme to Joe's situation in part (b)(ii)
- Recognition of the impact of the remittance basis on the subsequent computation in part (d)

Q2 Suggested Solution:

(a)(i) Alternative 1: Gift of a computer to Nori

The transfer of the computer to Nori will not result in a balancing charge on the main pool, as the proceeds will be £nil.

The transfer of the computer will also be a disposal of a chattel by Samphire Ltd, but this will be an exempt disposal as both cost and deemed proceeds are less than £6,000.

As Nori is a director of Samphire Ltd, the gift of the computer will give rise to a taxable benefit of £1,500 i.e. the market value of the computer at the date of the gift. Accordingly, there will be a Class 1A national insurance contributions (NIC) liability for Samphire Ltd of £226 ($£1,500 \times 15.05\%$). Corporation tax relief of £43 ($£226 \times 19\%$) will be available in respect of this.

Therefore the total additional taxes payable in respect of this alternative for Samphire Ltd are £183 ($£226 - £43$).

(a)(ii) Alternative 2: Make a loan to Nori

Samphire Ltd is a close company. Accordingly, on making a loan to Nori, a participator, it must make a payment of notional tax of £506 ($£1,500 \times 33.75\%$) to HM Revenue and Customs (HMRC). This payment will be due by 1 January 2026. Following the write off of the loan (on 6 April 2026), HMRC will repay all the notional tax to Samphire Ltd, (by 1 January 2028).

Writing off the loan is treated as a distribution, so there will be no corporation tax implications for Samphire Ltd.

Although the loan is interest-free, it will not give rise to a taxable benefit for Nori. This is because the total amount of the loan will not exceed £10,000 at any time. Accordingly, Samphire Ltd will not have any liability to Class 1A NIC.

However, a liability to Class 1 NIC will arise on writing off the loan on 6 April 2026, as Nori is also an employee of the company. Accordingly, Samphire Ltd will have a Class 1 NIC liability of £226 ($£1,500 \times 15.05\%$) and corporation tax relief in respect of this of £43 ($£226 \times 19\%$).

Therefore the total additional taxes payable in respect of this alternative for Samphire Ltd is also £183 ($£226 - £43$).

(b)(i) Gain on the sale of the lease

	£
Proceeds	206,000
Less: cost ($£165,000 \times 96.593/99.289$)	<u>(160,520)</u>
Unindexed gain	45,480
Less: indexation allowance: ($0.008 \times £160,520$)	<u>(1,284)</u>
Chargeable gain	<u>44,196</u>

(ii) Gain remaining chargeable after claiming the maximum amount of rollover relief.

Kelp Ltd owned the lease on Factory 1 for six years from 1 November 2017 to 1 November 2023. However, it did not occupy the building for trading purposes during the last six months of ownership from 1 May 2023 to 1 November 2023. Accordingly, only £40,513 ($£44,196 \times 5.5/6$) of the gain is eligible for rollover relief.

In order to relieve the whole of this eligible gain, Kelp Ltd must reinvest £188,833 ($£206,000 \times 5.5/6$) in qualifying business assets within the four year period commencing one year before the disposal of Factory 1.

The factory acquired from Samphire Ltd (Factory 2) is a qualifying business asset, acquired within the year prior to the disposal of Factory 1. Kelp Ltd and Samphire Ltd are not in a gains group, as they are owned by an individual, not a company. Accordingly, the price paid by Kelp Ltd of £138,000 is its relevant acquisition cost. As Kelp Ltd will use Factory 2 wholly for trading purposes, the full amount of £138,000 is the qualifying cost for rollover relief purposes.

The warehouse to be acquired by Kelp Ltd is also a qualifying business asset, and it will be acquired within the three years following the disposal of Factory 1. However, as only 70% of the warehouse will be used by Kelp Ltd in its trade, only £54,600 ($£78,000 \times 70\%$) of its cost will be a qualifying acquisition for rollover relief purposes.

Accordingly, £192,600 ($£138,000 + £54,600$) has been reinvested in qualifying business assets. As this exceeds £188,833, the whole of the eligible gain of £40,513 can be deferred, leaving an immediately chargeable gain of £3,683 ($£44,196 - £40,513$).

Q2. Detailed Marking Guide

		Available	Maximum
2 (a)(i)	Tax implications of transfer	1.5	
	Class 1A national insurance contributions (NIC)	2	
	Tax cost	1	
		<hr/>	
		4.5	4
		<hr/>	
(a)(ii)	Loan to participator	4.5	
	NIC implications	3	
	Tax cost	1	
		<hr/>	
		8.5	6
		<hr/>	
(b)(i)	Calculation of chargeable gain	3	3
		<hr/>	
(b)(ii)	Gain eligible for rollover relief	1.5	
	Reinvestment required	2	
	Qualifying expenditure – factory 2	2	
	- warehouse	1.5	
	Conclusion	1	
		<hr/>	
		8	7
		<hr/>	
	Professional skills marks (see below)		5
			<hr/>
			25
			<hr/>

Question 2 – Analysis of professional skills marks

Analysis and evaluation

- Consideration of relevant taxes payable in part (a)
- Appropriate use of information to determine the relationship between Samphire Ltd and Kelp Ltd and its relevance in the context of part (b)
- Appropriate use of relevant information to consider the impact of non-trade use in part (b)
- Appropriate use of information to support explanation of the maximum rollover relief in part (b)

Commercial acumen

- Recognition of the potential taxable benefits which could arise in part (a)
- Consideration of the cashflow implications of the notional tax in part (a)
- Consideration of the capital gains tax implications arising from the disposal of the computer in part (a)

Q3 Suggested Solution:

(a) Share option schemes

(1) Company share option plan (CSOP)

- **Ability to select employees**
In a CSOP, Yacon Ltd would be free to select employees as it wishes to participate in the scheme.
- **Value of options granted**
Yacon Ltd can choose to award options to purchase a different number of shares to each member of a CSOP. There is no annual maximum amount for the company, however, an employee can only be granted options over shares up to a total value of £30,000, as at the date of the grant. As Yacon Ltd only proposes to grant options over shares worth up to £3,000 per year for each employee, this is well within the limits.
- **Holding period required and tax implications for employees**
There are no tax implications for employees on the grant of the options, or on their exercise after five years as the exercise will be between three and ten years of being granted.

(2) Share incentive plan (SIP)

- **Ability to select employees**
Under the rules for a SIP, all employees must be offered the opportunity to participate in the plan. Yacon Ltd can specify a minimum period of employment in order to qualify, but this cannot exceed 18 months.
- **Value of free shares given**
Yacon Ltd can give each employee free shares up to the value of £3,600 each tax year, and therefore, the proposal to offer shares with a value of up to £3,000 to each employee each year will be acceptable. The free shares must be offered on similar terms to all employees, such that different amounts of shares can be offered to different employees, depending on their meeting certain objective criteria, such as length of service or performance targets.
- **Holding period required and tax implications for employees**
There are no tax implications for employees when the free shares are put in to the plan. As the free shares will be held in the plan for five years, there will also be no income tax liability when they are withdrawn from the plan.

(b) Daikon – reliefs available on the sale of his house

Private residence relief (PRR):

	Exempt years	Chargeable years
<i>1 July 2015 to 31 December 2015</i>		
Absent – no prior occupation		0.5
<i>1 January 2016 to 30 June 2017</i>		
Occupied	1.5	
<i>1 July 2017 to 31 December 2018</i>		
Absent but deemed occupation as employed overseas	1.5	
<i>1 January 2019 to 31 March 2019</i>		
Occupied	0.25	
<i>1 April 2019 to 31 March 2023</i>		
Occupied (4 years x 75%)	3	1
<i>1 April 2023 to 31 December 2023</i>		
Last 9 months treated as 100% occupation	<u>0.75</u>	<u> </u>
	7	1.5

PRR is £119,412 ($£145,000 \times 7/8.5$)

Letting relief

Letting relief is available to claim where part of an individual's private residence is let out and so a proportion does not qualify for PRR. The property must be occupied by both the tenant and the owner during the let period to qualify for the relief.

The additional amount of the gain which will be exempt under letting relief is the lowest of:

- (1) The amount of the gain which is exempt under the PRR exemption (£119,412)
- (2) The gain attributable to the letting £17,059 ($£145,000 \times 1/8.5$)
- (3) £40,000

Letting relief is therefore £17,059.

(c) Inheritance tax implications of Jicama's gift of the apartment.

The gift of the apartment on 5 June 2021 was a potentially exempt transfer (PET), valued at the market value of the apartment on that date. The gift was also a gift with reservation of benefit, due to the condition imposed by Jicama that she would continue to live there.

However, the reservation of benefit was lifted on 12 March 2023, when Jicama went to live with her sister. This created a further PET, which would be valued at the market value of the apartment on that date.

If Jicama dies in December 2026, this is within seven years of the date of the original gift, so both the original PET and the later deemed PET become chargeable. The liability on each of these PETs would be subject to taper relief as both were made more than 3 years before the date of death. To avoid a double tax charge, only the PET which results in a higher tax charge overall will actually be chargeable.

Question 3 – Detailed Marking Guide

		Available	Maximum
(a)	Company share option plan	4	
	Share incentive plan	5	
		<hr/>	
		9	8
		<hr/>	
(b)	Private residence relief	5.5	
	Letting relief	2.5	
		<hr/>	
		8	7
		<hr/>	
(c)	Original gift 5 June 2021	2	
	Reservation lifted	2	
	Death in December 2026	3	
		<hr/>	
		7	5
		<hr/>	
	Professional skills marks (see below)		5
			<hr/>
	Total		25
			<hr/>

Question 3 – Analysis of professional skills marks

Analysis and evaluation

- Adoption of a logical approach to prepare suitable calculations of PRR and letting relief in part (b)
- Appropriate use of the facts provided in order to reach relevant conclusions with respect to the suitability of the share plans in part (a)

Commercial acumen

- Appropriate use of information to identify gift with reservation in part (c)
- Demonstration of awareness that change in Jicama's circumstances will impact the inheritance tax position in part (c)