(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

am | 0 | 7 | 1 | 1 | 2 | 0 | 1 | 8 | Date of Examination

☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which paper you have attempted (if not already ticked below)

☐	Personal Taxation	✓	Corporate Taxation
☐	Business Taxation & Accounting Principles	☐	Inheritance Tax, Trusts & Estates
☐	Business Compliance	☐	VAT

Part I Question and Answer Booklet

Instructions

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time you are permitted to read and annotate the **Part II** question paper, which is printed separately. You may also read the legislation and use your calculator.
- You are **NOT** permitted to open this Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all** Part I questions in this Part I question and answer booklet.
- You must answer questions in the spaces provided. You should not write your answers on any loose leaf paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:
  - (a) Use a BLACK or BLUE ballpoint pen only.
  - (b) Not write in the margin areas indicated.
  - (c) Not remove any pages from this answer booklet or damage it in any way.

For use by examiner only

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1. In the year to 30 September 2018, Whitman Ltd purchased the following assets:

	£
Ventilation system	227,500
Energy saving equipment	50,000
Warehouse racking	35,650

The company also sold the following for the stated proceeds:

	£
Packing machine (original cost £40,000)	22,000

The tax written down values at 1 October 2017 were:

	£
General pool	435,650
Special rate pool	335,900

Whitman Ltd is not a member of any group of companies.

Calculate the maximum capital allowances available to Whitman Ltd. (4)

1/10/17 - 30/9/18.

	FYA.	AIA	GP	SRP	CA.
b/f.			435650	335900	
Energy sav.	50000.				50000.
ventilation.		200000.	~~227500~~	27500	200000
Racking			35650		
Disposal.			(22000).		
			449300.	363400	
WDA 18%.			(80874)		80874
WDA 8%.				(29072)	29072
WDV.			368426	334328	359946

CA claimed 359946.

AIA on ventilation as integral so only 8% relief.

FYA 100% on energy saving machinery

2. The shares in Horncastle Ltd have Enterprise Investment Scheme (EIS) status. The finance director wishes to encourage new investment in Horncastle Ltd by making potential investors aware that investing in EIS shares can enable chargeable gains arising on the disposal of other assets to be deferred.

Describe the circumstances under which investing in shares in Horncastle Ltd will give a Capital Gains Tax deferral, the amount of the deferral obtained and when the deferred gain is crystallised.

(4)

Deferred gain is crystalised at the earliest of
- 10yrs from deferral of gain
- on disposal of ~~shares~~ assets.
- asset no longer used in trade.

must had over 5% of EIS shares for over 1yr before.

~~must purchase asset 1yr before or 3yrs after~~ have sold

must have purchased shares 1yr before or 3yrs after asset disposal.

Deferral would be ~~equal to~~ the lower of the value of EIS investment and the chargeable gain.

over 5% EIS investment must be made.

3. Frederick, who owns a wedding photography company, has been advised that the company should use the VAT Flat Rate Scheme.

Explain the circumstances under which the company can use the VAT Flat Rate Scheme and the administrative advantages for the company in using the scheme. (3)

In using the VAT flat rate scheme, VAT is calculated on VAT turnover (gross). and applied to a set VAT rate percentage

One VAT return is submitted 2 months after VAT end date (period)
9 ~~monthly~~ monthly payments are made following month four of the period
The payments are 10% of prior years VAT.

4. Kiln Ltd currently has 500,000 ordinary £1 shares in issue. It proposes to make a bonus issue of one new share for every two shares currently held. The balance sheet of the company is as follows:

	£'000
Net Assets	1,000
Share capital	500
Reserves	500
	1,000

1) Show the accounting entries necessary to record the bonus issue. (1)

2) Show the balance sheet following the bonus issue. (2)

500000 ordinary shares. 1 in 2 bonus issue.

500000 × 1/2 = 250000 addiminal shares.

Dr P+L reserve. 250000
Cr share capital 250000.

	£'000	
Net assets	1,000	
Share capital	750	500000+ 250000
Reserves	750	500000+ 250000
	1,500	

5. **Explain the issues to be considered for group relief of current period trading losses when a company enters or leaves a group.** (4)

when a company enters or leaves a group losses can only be relieved against profits earned during its time in the group. They cannot be offset against profit earned before entering or after leaving the group.

If a company with trading losses is acquired its losses could be restricted to the company prior acquisition. If a major change in ownership has occured and a significant change in the companies business activities occurs 3yrs after acquisition.
If no change in business occurs the loss could be relieved to group companies.

As with profit losses of a company leaving a group must be apportioned to the period of time it was part of the group.

Gains are relieved at the lower of available loss and available gain. (apportioned by % holding).

6. Your client PAM Ltd, a UK resident company, is considering expanding its business into another country.

Explain the differences for UK Corporation Tax purposes of PAM Ltd operating as either an overseas branch or setting up an overseas limited company as a subsidiary. **(4)**

If setting up an overseas branch the overseas profit could be subject to double tax. Oversea tax on oversea income and UK tax on oversea income.
You could claim unilateral double tax relief in which a deduction is given at the lower of oversea tax suffered and UK tax liability.
You could also apply for oversea income to be exempt from UK tax however in this situation double tax relief would be unavailable as no double tax would be incurred.

If setting up as a subsidiary the shareholding would be taken into consideration regarding gains groups however no trade losses could be transferred against oversea subsidiary profit to reduce tax liability. No UK tax would be payable on this subsidiaries income.

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7. Brigham Ltd has 50,000 ordinary £1 shares in issue. In September 2018 Maria (who is employed by Brigham Ltd as sales director) sold her entire holding of shares in Brigham Ltd; the proceeds of the sale were £250,000. This is the first time Maria has sold any shares or other business interest.

The shares were purchased as follows:

Date of Purchase	Cost of shares	Number of shares
January 2010	£12,000	2,000
March 2011	£20,000	500
November 2012	£40,000	1,000

Calculate the Capital Gains Tax payable by Maria, assuming she is a higher rate tax payer, giving a brief explanation of the Capital Gains Tax rate used. (4)

3500 shares sold in sept 18.
Non purchased same day.
Non purchased in last 9 days.
All grouped under s108.

	share	cost	Total price
Jan 10.	2000	~~20~~ ~~12000~~ 6.	12000
IA 1.			804.
Mar 11	500	40.	20000.
~~IA~~	2500.	13	32804.
IA 2. ~~NOV 12.~~			1848.
NOV 12.	1000	40.	40000
	3500	21.	74652.

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1A 1. $\frac{232.5 - 217.9}{217.9} = 0.067003212 \times 12000$

1A 2. $\frac{245.6 - 232.5}{232.5} = 0.056344086 \times 32804$

Proceed. 250000

cost ( )

Gain

As the entire shareholding is said could claim entrepreneurs relief at 10% as £10m lifetime limit has not been used.

Maria is an employee of the company and held he shares >1yr.

8. **Explain the conditions that have to be fulfilled for rollover relief to be available on the disposal of assets by a company, and what relief is available.** (4)

Proceed - cost - indexation allowance = Gain.

If a qualifying asset is sold and the proceeds of that disposal, fully reinvested in another qualifying asset, the gain ~~and~~ can be deferred against the base cost of the new asset.

Proceed	x	New asset cost	x
Cost	(x)	Rollover gain	(x)
Gain	x	New base cost	x
Rollover	(x)		
Chargeable	x		

This defers the charge until the new asset is sold.

If partially reinvested, the gain is partly chargeable. This chargeable element is the difference between proceed and reinvestment

Proceed	x	Gain	x
Reinvested	(x)	proceed not reinvested	(x)
Chargeable	x	Rollover	x

The rollover amount is reduced by this chargeable amount

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A qualifying asset must be purchased 1yr prior or 3yrs following the qualifying disposal.
If invested in a depreciating asset the gain will not be deducted from base cost, and frozen.
This gain will crystalise at the earlier of:
- 10yrs from disposal
- Sale of asset
- Asset no longer used in business.

The remaining gain may be eligible for entrepreneurs relief or gift relief.

9. Large companies are required to pay their Corporation Tax liability in instalments.

Explain the criteria for determining if a company which is part of a group is required to make instalment payments. (2)

The threshold to pay by instalments is £1500000 This is apportioned if the period is shorter and if the company is part of a group.

e.g. A company in a group with 2 other companies.

1500000 ÷ 3 = 500000.

should augmented profit (TTP + Dividend) exceed this amount, (and exceeded it in prior year) instalments must be paid.

Paid on 14th day of 7th, 10th, 13th and 16th month starting from period start.

If it did not pay by instalments in the previous year it will not pay by instalments this year.

A group can nominate a company to make the payments.

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10. Beacon Hill LLP is a limited liability partnership with both individual members and company members. It has property income and trading income.

Explain how both types of members of Beacon Hill LLP will be taxed on the LLP's trading profits and the tax treatment of interest paid on borrowings to invest in Beacon Hill LLP. (2)

A LLP is a transparent non-taxable entity however will have to submit a partnership return.
The members of an LLP are taken into consideration as partners and their underlying profit taxed ~~are~~ under income tax.

The individual members will be taxed on their portion of underlying profit in income tax
company members will be taxed on their portion of underlying profit as non-trade income.

underlying portion of trade profit per member taxable.

Interest paid recorded as non-trade deficit and offset against non-trade gain then total profit.

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11. The ordinary shares in Horsley Ltd are owned as follows:

Name	Percentage of shares
Jeff Horsley	22%
Angela Horsley (wife of Jeff)	15%
Annette Jones (Jeff's aunt)	5%
Mark Davies (finance director of Horsley Ltd)	2%
Elise Martin (managing director of Horsley Ltd)	5%
Various minority investors (23 investors with 2% each)	46%
David Richards (Angela Horsley's brother)	5%

Annette Jones is not an employee or director of Horsley Ltd.

1) Explain whether Horsley Ltd is a close company. (2)

2) Explain the tax implications for the company of a loan made by Horsley Ltd to Annette Jones, assuming Horsley Ltd is a small company. (2)

A close company is made up of:
5 or fewer participators
Directors who are shareholders.

Jeff + Angela (wife) + David (brother in law).
Elise (director holding > 5%).
Aunts are not considered related. Related is parents, children, partners, siblings of a participator.

Horsley Ltd is a closed company as has 5 or fewer participators (4).

As ~~an~~ Annette is not a director or ~~an~~ employee of Horsley Ltd

outstanding amount ~~loans~~
lower at
year end } taxed at 32.5%
payment date.

repaid on payment date following year of
repayment in kind

12. A company may be subject to the personal services companies' rules.

Explain the National Insurance Contributions due by a company subject to these rules. (2)

IR35. individual who sets up an intermediary company to reduce level of tax paid.

when calculating the deemed payment:

Income recieved	x
5% deduction	(x)
	x
salary, pension, benefits	(x)
class 1A on benefits	(x)
gross deemed	x
NI	(x)
Net deemed	x

Gross deemed payment x 13.8 / 113.8 = NI.

The gross deemed payment is deductable by the company paying the personal service company.

The individual within the personal service company will have to pay NI on this deemed profit class 2 and class 4.

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☐	Personal Taxation	✓	Corporate Taxation
☐	Business Taxation & Accounting Principles	☐	Inheritance Tax, Trusts & Estates
☐	Business Compliance	☐	VAT

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Part II Answer Booklet

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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QUESTION NUMBER	4.

As Spark Ltd is receiving income from a patented service granted within the UK it is eligible for patent box relief.
The royalties are multiplied by an IP calculation producing the deductable amount.

$$\text{IP profit} \times \frac{\text{Main CT rate} - \text{IP Rate}}{\text{Main CT rate}}$$

As this is y/e 31/3/18 the main CT rate is 19%. and the IP rate is 10%.

$$300500 \times \frac{19\% - 10\%}{19\%} = 142342.$$

This is deducted from the taxable trading profit.

TTP	720000.
IP Relief	(142342).
	577658

577658 × 19% = 109755 CT liability.

Although the March 17 return was filed on time it was incorrect, therefore penalties could be charged.

QUESTION NUMBER	4

The penalty will be based on lost income as a result of incorrect information.
670000 × 20% = 134000
630000 × 20% = 126000.
134000 - 126000 = 8000 additional liability.

The penalties are based on the nature of the mistake =
careless = 30%
Deliberate but not concealed = 70%
Deliberate and concealed = 100%

As this was careless 30% penalty could be made 8000 × 30% = 2400 penalty.

As the goodwill was acquired after April 2010 it is an intangible fixed asset which can be amortized. Also this means it is no longer an allowable deduction of corporation tax.
The goodwill should be included as an IFA and written down until sold when a capital gain or deficit will arise.

QUESTION NUMBER	1

Canal Ltd. 1/4/17 - 31/3/18.

Trade	337900
CA.	
75900 × 18%	(13662)
12200 × 8%	(976)
Trade	323262

Rental.

2000 × 1.2 = 2400. must include overseas tax.

	48000
Rental	50400

Double tax relief can be given

DTR. 2400 × 20% = 480

2400 × 19% = ~~380~~ 456 - lower for DTR.

Bank interest rec.	8450	Bank interest rec.	8450
overdraft interest pay	(400)	interest pay	(5340)
	8050		3110
interest on loan	(1670)		
	6380		

QUESTION NUMBER	1

ignore dividends amount.

ignore charity donations until all tax relief has been given.

Trade	323262
NTLR	3110
Rental	50400
Gain	12000
	388772

Gain	12000	
capital loss b/f	(12000)	capital loss c/f 8000.
	NIL	

Trade	323262	
DTR	(456)	
NTLR	3110	
Rental	50400	
Gain	NIL	
	~~376772~~ 376316	

		376316 ~~376772~~	
TTP	~~376772~~		
Banks loss	~~(290000)~~	(217500)	~~29~~ 290000 × 75%
	~~86772~~	~~159272~~ 158816	
Charity	~~(1500)~~	(1500)	
	~~85272~~	~~157772~~ 157316	

~~157772~~
~~85272~~ × ~~19%~~ = ~~16202~~. CT liability. 157316 × 19% = 29890.

QUESTION NUMBER	1

TTP ~~376316~~ ~~159272~~ 157316

Dividend 3800

161116 ~~163072~~ Augmented trade profit.

Bank, canal, street, Espedair.

15000001 4 = 375000.

under threshold so pay 9m 1 day after year end. 1 January 2019.

QUESTION NUMBER	2.

17/18.

incorporated 28/2/18.

17/18.	1/1/17 - 31/12/17.	30000.
	1/1/18 - 28/2/18.	12600
	overlap	(3900).
		38700.

Trade.	15000.
legal cessation.	(2400).
	12600.

The sole trader business will cease to trade on 28 February 2018. ~~[illegible]~~ The incorporated company will commence trade 1 March 18.

Income tax will be paid on the profit made in 17/18 £38700, which is a combination of 14 months of trade minus overlap profits.

~~Income tax will be charged at [illegible]~~

~~3m 20% 1/1/17 - 31/3/17 19.21%~~

~~9m 19% 1/4/17 - 28/2/18~~

~~£38700 × 19.21% = 7434.~~

~~33500 × 20% = 6700~~

~~(38700 - 33500) × 40% = 2080~~

~~8780~~

QUESTION NUMBER	2.

Profit	38700
PA	(11500)
	27200 × 20% = 5440 income tax.

As the photographic equipment cost and value is below 6000 it is classed as a washing chattel and exempt from CGT.
Therefore the asset to calculate CGT will be the studio.

Proceed	140000
Cost	(120000)
Gain	20000

Gain × shares / total consideration.
20000 × 10000 / (10000 + 30000) = 5000.
This 5000 is deducted from the gain and the base cost of the shares.

Shares	10000
Inc. Relief	(5000)
Base cost	5000

~~Personal~~ Annual ~~allowance~~ exemption can then be deducted from the gain aswell.

QUESTION NUMBER 2.

Gain	20000
inc. Relief	(5000)
AE ~~PA~~	(11300)
Gain	3700

We are asked to ignore ER so this will be taxed at 20%.
3700 × 20% = 740 CGT liability

As Anna is incorporating a company she would be liable for VAT. However it would appear this is a transfer of going concern and therefore exempt. To satisfy TOGC the following conditions must be met:
Vendor is VAT registered.
The company is a UK company
There is no break or change in trade.
The company is immediately VAT registered.
The business is a going concern.

Incorporation relief is claimed on the gain as the business is incorporated partly for the consideration of shares, and all assets except cash are transferred. Incorporation

QUESTION NUMBER	2

relief must be claimed 1yr following end of tax year. 31 January 2020.

QUESTION NUMBER	3

TO: simone@co.uk

From: Adviser@co.uk.

Subject: RE: Raising Funds.

Dear simone.

Please see below my advice regarding your previous email.

Sale of shares

I understand 100% shares of Beck Ltd was purchased in January 17, for 170000. This will be deducted from your estimated proceeds of 310000 along with the estimated indexation allowance at 10%.

Proceed	310000	
cost	(170000)	
	140000	
IA	(14000)	140000×10%.
Gain	126000.	

To claim substantial shareholding exemption at least 10% of the shares must have been held for 1year in the 2years prior to disposal. The company must continue to trade after

the sale of Beck, and the sale must have been for the benefit of the business not as a method of tax avoidence.
under SSE the gain would be exempt from CGT, however if not the gain would be subject to CGT at 20%.
126000 × 20% = 25200.
The sale must take place after January 19 to ensure they have been held for 2 yrs prior to disposal.

Sale of assets

When the property was transferred to Beck in April 17 I assume this was done so at nil gain nil loss, resulting in no chargeable gain. However as the company would be sold within 6 years of this transfer a degrouping charge would have to be applied to reflect the difference between MV and transfer price.

QUESTION NUMBER	3

~~Proceed~~ ~~380000~~

Initial transfer:

Proceed	280000
cost	(290000)
IA loss	(10000)

would have been transfered at 290000 to prevent a loss in Chnd Ltd.

29000
(29000)
NIL

Proceed	380000
cost	(280000)
	100000
~~Begin up~~	~~(10000)~~
~~IA charge~~	~~(10000)~~
	~~90000~~
	~~[illegible]~~
IA	(19600)
Gain	80400

~~Apm to sale~~ ~~7%~~

Funds

A bonus share offering could be made in which shares to the value of the sale could be offered to the shareholders.

This would increase P+L reserves and share capital.

QUESTION NUMBER 3.

Heads of agreement.

The heads of agreement is drafted before the sale of shares and includes:

- The parties involved in the transaction
- Details of the asset to be sold (in this case the shares in BECK).
- Details on the agreed amounts and offerings (such as the 310000 offering).
- Any contractual and transactional information regarding the sale.

This should be signed by all parties following the initial negotiations.

Bonus.

Apologies but it would appear the 20000 bonus payment will not be made until 30 may 19. As this is over 9 months and 1 day of your year end it cannot be deducted from the years profits.

Instead this will be a deductable expense in the yle 30/6/19 accounts.

~~[illegible]~~ including this as a deduction

QUESTION NUMBER 3

would produce an incorrect CT liability.
The difference in liability could be subject to a 70%-100% penalty of £3800.
(20000 x 19%) ~~[illegible]~~ dependent on if deliberately concealed.
We are unable to do this, and should you insist on this deduction, we would have to cease our acting for you with immediate effect. HMRC would be notified, but no reason given.

I hope this has been of some assistance
Kind regards
Tax adviser.

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