[redacted]

B2 Paper: Business Taxation

1) Sole trader. Not registered for VAT

1. TTP 10m/e 31 Mar 2026

		£
Income received		46,000
Less: Allowable expenses paid: - Plumbing supplies - Motor expenses (flat rate 6,200 x 45p) (flat rate 400 x 24p) - Wages (drawings not allowable) (1/8 x 3,900) (10% x 900) - Storage unit (2/3 x 3,750)	 24,000 2,790 96 488 90 2,500	
		(29,964)
TTP		16,036

2. Cost of van & car. Cash basis

Y/e Mar 2026

Emissions greater than 50g/km:
Cars 180 g/km are treated as special rate @6% and is apportioned for business use.
£24,000 @ 6% = 1,440 x 70% = £1,008

Van eligible for AIA @ 100%
However, this would waste the personal allowance of £12,570 and would be best to have tax relief each year and not just the first year.
Instead place it in the CA pool at 18% = £4,320

And then a balancing charge would occur in the year of sale

Basic band remaining
£37,700 - £25,000 = £12,700

3. Input VAT reclaimed?

For input VAT to be reclaimed, some conditions apply:

- supply of goods/services must have taken place
- supply must have been made to a taxable person who must have been a taxable person at the time of supply
- goods/services must be used for a business purpose if input tax credit is to be allowed
- the claimant must hold the required evidence that input tax has been incurred (e.g. VAT invoice)
- credit for input tax is restricted to the amount properly chargeable on a supply
- goods/services purchased must have a direct and immediate link with taxable supplies

Where there is a partial business use, i.e. 70%, the input tax recovered will be apportioned under VATA 1994 s.24(5).

For a van, the input tax is apportioned and some is recoverable however for a car it is blocked and no input tax is recoverable.

The documents needed will include the purchase agreement, VAT invoice.

2) Terminal AP 30 Sep 2025

1. TTP y/e 31 Dec 2025

		£
Profit/loss per accounts		(43,600)
Less: rental		(36,000)
Profit on disposal of assets		(133,700)
		(213,300)
Add back:		
Depreciation	13,000	
Premise expenses (just relating to rental)	15,800	
Admin: dinner for customers (not staff) £1,250 x 10/25	500	
Wages & salaries 48,000 – 8,000 + (3 x 8,000)	16,000	
Legal & professional (3,300 + 1,000)	4,300	
		49,600
Tax adjusted profits before balancing charge		(163,700)
Balancing charge (48,000 – 1,000) – 15,400		31,600
TTP		(132,100)

rental for p/e 30 Sep 2025 36,000 – 15,800 = 20,400

Terminal loss relief on a FIFO basis

	Y/e 31 Dec 2022 £	Y/e 31 Dec 2023 £	Y/e 31 Dec 2024 £	P/e 30 Sep 2025 £
Trade profits	20,000	35,000	25,000	-
Trade loss				(132,100)
NTLR				
Chargeable gains				
Less: QCDs	(600)	(600)	(600)	-
Total profits	19,400	34,400	24,400	Nil

Terminal loss relief:				
- 9 m/e 30 Sep 2025				Nil
- Y/e 31 Dec 2024			(24,400)	
- Y/e 31 Dec 2023		(34,400)		
- Y/e 31 Dec 2022	(19,400)			
TTP	Nil	Nil	Nil	Nil

£53,900 terminal loss remaining

Final 3 m/e 31 dec 2025

	£
Building proceeds	450,000
Less: cost	(330,000)
Gain	120,000
Losses b/f	(53,900)
Chargeable gain	66,100

2. CT filing requirements 12m/e 31 Dec 2025

An ITA 2007, ss.89 and 90 claim must be made 4 years from the end of the tax year of cessation, therefore before 31 Dec 2029.

3) Email

To: name@company.co.uk

From: taxadvisor@taxadvisor.com

Date: 28/07/2026

Subject:

Hello Akshar and Ulrika

Thank you for your email.

1. CGT position for shareholders

The distribution of the profits of the £5million offer based on the current shareholding will be as follows:

	No. of shares	% of shares	Proceeds received £	Base cost
Akshar	500	40	1,999,500	500
Ulrika	400	32	1,600,000	400
Sandi	100	8	400,000	100
Alex	250	20	1,000,000	235,000

As Akshar has already used £500,000 of his lifetime limit will be able to use his remaining Business Asset Disposal Relief BADR of £500,000 left as he owns more than 5% of the ordinary shareholding. £500,000 will be taxed at 14% (£70,000) and anything remaining will be taxed at the standard rates of 18% for below the basic rate threshold and then 24% for anything above. Assuming he is a higher rate tax payer, the remaining £1,499,500 will be taxed at 24% leaving a liability of £359,880 + £70,000 = £429,880.

As Ulrika is a director and owns over 5% of the shares, she will be able to claim BADR for £1,000,000 (assuming she has not used her lifelong limit) which will be taxed at 14% (presuming rates remain unchanged) so £140,000 and then the remaining £600,000 will be taxed at 24% (assuming she is a higher rate taxpayer) leaving her with a liability of £144,000 + £140,000 = £284,000.

Whilst Ulrika made a claim for gift relief at the time of the transfer to Sandi, the base cost passed onto Sandi will remain the same as it was on acquisition.

As Sandi is not an employee or director, BADR will not be available to her. As a basic-rate taxpayer she will be charged at 18% up to £50,000 and then 24% on any remaining amount.

As Alex subscribed later, the base cost of her shares will be calculated differently to the other shareholders.

She will be able to claim Investor's relief as she is not connected to any employee/director, Payrol Ltd is a trading company and was unlisted when the shares were issued. The shares were also new ordinary shares subscribed for cash before 17 March 2016 and have also been held for 3 years. There is a lifetime limit of £10 million so Alex will be taxed at 14% for all of her 1 million shares upon sale, leaving her wit ha liability of £140,000.

Additionally, there will be an Annual Exempt Amount (AEA) available to all shareholders of £3,000 assuming that it is not used in the tax year on any other disposal.

2. Request to provide information on Payrop Ltd

It is necessary that we comply with the Professional Rules and Practice Guideline (PRPG) throughout this due diligence, meaning we must prioritise confidentiality, professional competence and due care and accuracy and integrity.

Any information that is obtained from a client is confidential and must not be disclosed to Talass plc.

There is no obligation to hand over any additional information, unless required by law, other than what is asked of us.

Regards

Tax advisor.

4) Sole trader. Vat registered. Accruals

1. CAs on P&M y/e 31 Dec 2025

	FYA @ 100% £	AIA @ 100% £	General pool £	Kaleb Car £	BU	Special rate pool £	CA claim £

TWDV b/f			Nil			2,100	
Additions - Waste disposal system - Factory machinery + prep for installation - Electric car purchase - Car >50g/km	38,000	14,000 168,000		45,000	X 50 %		
Disposals: lower of cost & sale proceeds - Old machinery - Car 240g/km			(57,600)			(1,900)	
	38,000	182,000	(57,600)	22,500		200	
Balancing adjustment							
FYA @ 100%	(38,000)						38,000
AIA @ 100%		(182,000)					182,000
WDA @ 18%			(10,368)				10,368
WDA @ 18%/6%				(1,350)			1,350
WDA @ 6%						(12)	12
TWDV c/f	Nil	Nil	47,232	21,150		188	
CA claim							67,930

1 – Integral feature so treated as special rate.

2 – preparation included in price. Qualifying p&m for AIA

3 – hire lease not included in CAs
4 – Deposit ignored. Over than 50g/km treated at special rate
5 – Electric car so qualifies for FYA @ 100%
6 – Car is used for the employer's personal use so is proportioned for it's business use. The CO2 emissions are greater than 50g/km so it will be treated at the special rate.
7 – No business use proportion as used by employee not employer. The car is a high emission car so at the special rate.

2. Self-employed/employee

The major factors that must be considered in a work relationship to discover whether it is a contract of service or not are mutuality of obligation, wages paid to the worker instead of a third party, personal service, and control. A few further factors to be considered include degree of integration into the organisation, basis of payment, provision of own equipment, financial risk, opportunity to profit, business organisation, the number & length of engagements and the name of the contract and position of the parties.

As Gary is paid directly by Kaleb and not through a third party this would suggest that he were an employee.

However, Gary also brings his own equipment and has a great financial risk as he is not paid sick/holiday pay and is not paid for any additional hours that he may work which suggest he is self-employed.

3. Tax implications of deemed employee

Gary would receive employment income instead of trading income, Class 1 NICs taxed at 15% which are much more expensive than Class 4 NICS. He will also be paid via PAYE instead of having submit his own SA return. The Expenses list will also be more difficult. Gary will have the possibility of an occupational/employee pension and will have no VAT requirements as well as much more thorough employment law protection.

5) Company

1. Chargeable gain on disposal of factory 31 Dec 2025 before reliefs

	£
Gross sale proceeds	686,000
Less: incidental selling cost	(4,000)
Net sale proceeds	682,000
Less: original cost	(248,000)
Less: legal fees & stamp duty	(5,200)
Less: extension	(186,000)
Less: planning permission & design costs	(5,500)
Unindexed gain	237,300

For SBA, the planning permission and legal fees & stamp duty costs are not allowable.

The relief would be restricted as the factory was rented out.

2. Conditions for rollover relief

Rollover relief applies when a trader sells one business asset and replaces it with another. The gain on the old asset, in this case the old factory, are rolled into the base cost of the new asset, the new factory. All the proceeds from the sale of the old factory must be rolled over into the purchase of the new factory otherwise a chargeable gain will arise on the cash retained.

Qualifying assets for companies include land and buildings and P&M. The new factory is acquired within 12 months prior to the disposal of the old factory, so as long as the old and new factories are both used in the trade then rollover relief would be available.

A claim must be made within 4 years of the end of the later of the tax year in which the gain arises (31 Dec 2029), or in which the new asset is acquired (August 2029), therefore 31 Dec 2029.

However, since the old factory was rented out, the rollover relief would be restricted to only the business use fraction of the gain.

3. How rollover relief would operate for new assets acquired

As the industrial equipment would constitute as depreciating P&M as it has a useful life of less than 60 years, it would also be eligible for rollover relief.

The gain on the asset being replaced is not deducted from the base cost of the asset acquired, instead the gain on the old asset being deferred is frozen. This frozen gain crystallises on the earliest of:

- The sale of the depreciating asset
- Ceasing to use the depreciating asset for trade purposes
- 10 years from the acquisition of the depreciating asset.

If it is used for only partial business use, part used in trade is the only part eligible for the relief and will be apportioned.

6)

1. Chargeable gain on disposals 1 & 3

Lease 1: grant

	£
Premium paid	168,000
Less: legal fees	(1,750)
Less: 220,000 – (2% x (40-1) x 168,000)	(88,960)
Property income	77,290

Lease 2: sale

	£
Proceeds	88,000
Less: allowable cost 170,000 x 8/25	(54,400)
Gain	33,600

3 Land: part disposal

No IA for individuals

	£
Proceeds	38,000
Less: cost of sale	(600)
Less: cost 38,000/(38,000+52,000) x 46,000	(19,422)
Less: cost of acquisition (800 + 2,300)	(3,100)
Less: enhancement	(15,000)

Loss	(122)

2. Chargeable gains on disposals 4 & 5

4) Machine

Capital gains are not payable on P&M, it is treated in the capital allowances formula

5) Book

	£
Proceeds	10,000
Less: cost	(2,400)
Less: auction fees	(240)
Gain	7,360
Restricted gain 5/3 x (10,000 – 6,000) As proceeds > £6,000, cost<£6,000	6,667

3. BADR on disposal 6

For BADR to be available, there are some conditions that apply:

- The shareholder must work for the company,
- The shares must be held for at least 2 years
- The shares can be subscribed for/bought from another shareholder
- The shareholder must hold at least 5% of the ordinary share capital and be able to exercise 5% of the voting rights of the company. This must also provide 5% f the rights to the distributable profits, assets winding up and the proceeds of disposal when the ordinary share capital is sold

Val was a director of the company and sold shares in her personal trading company so the first condition is met. She had a 8/100 shareholding, so 8% and the shares had been held since Feb 2019, so 5 years, therefore the other conditions are also met and BADR is available on the disposal.

However, after transferring some of her shares to Mo, she no longer had at least 5% so no longer qualified for BADR.

Election can be made for a deemed disposal and reacquisition of the shares immediately before the dilution. The notional gain will then qualify for BADR.

BADR is taxed at 14% (assuming current rates) and the claim must be made before the first anniversary of the 31 Jan following the year of disposal, i.e. 31 Jan 2027.