



Level 4 Trailblazer Role Simulation

**SUGGESTED
SOLUTIONS**

RSE – 6 DECEMBER 2018

Professional marks are awarded for quality of communication. This includes using a suitable format, writing for the intended recipient, clarity, courtesy, appropriate written style, directly addressing the task set, relevance to the information available and avoiding superfluous material.

Credit will be given for alternative valid points and approaches.

Credit will be given where possible where a candidate makes an error and then continues a task correctly.

Total marks 100; pass mark 70; distinction 90

Task 1

Eco & Co Cleaning Ltd

Draft Capital Allowances Calculation year ended 31 March 2019

	FYA	General Pool	18%	Special Rate Pool	8%	Total	Note
	£	£	£	£	£	£	
TWDV b/f			42,862		86,254		½
Additions:							
Electric pool cars	214,200						1
General plant		62,500					½
Further plant		20,000					E ½
Old Hill Road:							
Thermal insulation				6,500			1
Staff facilities		13,000					1
Heating and lighting	8,500						1
Bike storage		3,100					F 1
Subtotals	222,700	98,600		6,500			
FYA	(222,700)					222,700	
AIA SRP				(6,500)		6,500	G ½
AIA General Pool		(98,600)				98,600	½
Unused AIA £94,900							H ½
Balance into pools		0		0			
			42,862		86,254		
Less disposals:							
Pool cars			(52,650)				½
Balancing charge			9,788			(9,788)	1
WDA @ 18%						0	½
WDA @ 8%					(6,900)	6,900	½
Total						£324,912	½

Notes

A	Rubbish removal is allowable revenue expenditure	1
B	The building and therefore also associated legal costs are capital but not qualifying for CAs	1
C	Re-roofing is capital (not repairs) as building unusable without (Law Shipping) but not qualifying for capital allowances	1
D	General brickwork likely to be part of the building and not qualifying for capital allowances	1
E	General plant cost increased per telcon with Sam	
F	Bike storage equipment assumed to have an active function	
G	AIA allocated to special rate pool first	1
H	Unused AIA of £94,900 is lost	½

Further information/assumptions (½ to 1 mark per valid point max 3)

It has been assumed that the bicycle storage equipment has an active function, but some further details will be needed to check that this will not simply be the 'setting' and so, like the building, not qualify for capital allowances.

If the brickwork was directly linked to installation of plant it would be possible to claim capital allowances on this.

Showering facilities might qualify for 100% FYA as water-saving equipment, but are anyway covered by the AIA. Structural costs of cubicles might not qualify.

If rubbish removed was already on the land when it was bought, this would make the removal expenses part of the capital cost, rather than revenue.

VAT is ignored.

Assumes no further change to cost of general plant.

22 marks maximum:

17 technical max, 5 professional marks

Technical: marks shown above

Professional: including layout of calculation with title giving name and date, labelled figures, reasonable pro forma, clarity in written section, suitability for this client, reference to at least one non-allowable item

Task 2

Email to Harley 6 December

Harley

I thought that it would be helpful in advance of next week's meeting to reply to the two points on employee benefits which you raised when you spoke with Ayo on 13 November.

1. Benefits information for employees

Please see the attached draft Summary Sheet and let me know if this will suit your purposes.

2. Payments for bicycle travel

Up to 20p per business mile may be paid tax free to employees using their own bicycles.

Above this level, the benefit becomes taxable. Below, the difference is deductible. So (20p – 15p) ie 5p per mile would be deductible from the employee's taxable earnings, and on 1,000 miles this would give a deduction of £50.

As always, I will be pleased to provide any additional information that you may require.

Kind regards

Sam

Task 2 continued

Tax and reporting for typical benefits provided by Eco to employees

Car benefits

A company car available for private use will result in a taxable benefit for the employee.

Eco now reports and taxes car benefits via the payroll. Details are not reported on form P11D, however employees will receive written details of payrolled benefits by 31 May following the end of the tax year. No further action is needed in relation to payrolled benefits and they do not need to be declared separately to HMRC by the employee.

Interest-free loans

An interest-free loan of over £10,000 will result in a taxable benefit for the employee.

Employees will receive details on a form P11D by 6 July following the end of the tax year.

Sight tests

Eco pays for sight tests for all employees using a VDU for work.

These sight tests are exempted from tax in the tax legislation. Employees will not receive any paperwork relating to these and there is no need to report them to HMRC.

Birthday food hampers

The tax legislation provides an exemption from tax for what are termed 'trivial benefits provided by employers'. Eco's birthday food hampers do not cost more than £50 and are not work-related. They fall within the definition of trivial benefits.

Employees will not receive any paperwork relating to these and there is no need to report them to HMRC.

Draft: 6 December 2018

17 marks maximum:

13 technical, 4 professional marks

Technical: bicycles 2; cars 3; loans 3; sight tests 2; hampers 3

Professional: including format addressed to client, referring in letter to telcon, producing and directing to factsheet/summary, style and clarity for HR/employees, including reference to all 4 benefits.

Task 3

Draft letter to Dirk

Address and date

Dear Dirk

Thank you for your email of 30 October to Pat and me. I was very sorry to learn of your situation and hope that you are beginning to feel better following your time in hospital.

I deliberately delayed replying until now, partly because you have been resting and recuperating, but also because of the professional issues which your proposed retirement from Eco raises. I set these out in this letter as briefly as I can.

We have a duty of care to you as a client. A key element in fulfilling that duty of care to you is maintaining our professional independence. You need to know that any advice that we provide to you is what we consider to be the most appropriate advice for you regardless of its implications for others. We have to manage any conflict of interest. That extends to any situation where there might be a perception of a possible conflict of interest, even including one where the parties themselves do not identify any such conflict.

Any agreement between you and Eco in relation to your retirement will have various financial, tax and legal implications for both you and the company. Those implications will necessarily impact you and Eco differently so you and the company will have different interests in how they are addressed. Those different interests both need the benefit of separate, objective advice. This conflict of interest means that we cannot properly act for both you and Eco in relation to any matters connected with your retirement from the company.

As a small firm, we are not able to offer separate teams to act for you and the company. I have concluded in the particular circumstances that Hill & Dale should advise Eco in relation to your retirement and that you should seek separate independent advice.

As we have already submitted your 2017/18 tax return to HMRC, there will not be another tax return deadline for you until 31 January 2020. You will obviously need to consider before then which advisers you wish to prepare your 2018/2019 tax return, but that is not a decision that has to be made right now. If you wish, it might be possible to engage another adviser for the retirement advice and retain our services for the usual tax-return preparation.

We will of course be pleased to provide relevant information from your file to any new advisers. And any information we hold about you remains confidential. I am sorry that this is less straightforward than you had hoped, and also that it comes at a difficult time, but we will do everything to assist a smooth transition.

If in keeping this letter short I have left out something that we need to consider, do please let me know. I will be pleased to talk through the next steps once you have had time to consider this.

With very best wishes

Bettina

20 marks maximum:

16 technical max, 6 professional marks

Technical marks:

Reference to duty of care, professional independence, objectivity	3
Reference to both conflict of interest and perceived conflict or bias	3
Application to the particular circumstances - termination package	4
Indication of requirement to obtain separate independent advice (just D or D and also co)	2
Info to new advisers; 2018/19 return; other relevant points	Max 4
Professional: including format addressed to client, mention email, tone, sensitivity, clarity, professional, practical, not quoting PRPG/PCRT at length, offer to follow up	

Task 4

Jaina – CGT implications of the restaurant plans and legal issue to consider

A. DISPOSAL OF BUSINESS BY JAINA

1. If Jaina buys the property (with goodwill) in her own name, the later disposal will give rise to a gain.
2. The gain on the gift would be the difference between what Jaina paid for it and its open market value at the time of the gift.
3. So if the property had originally cost £350,000 and almost doubled in value to (say) £650,000, Jaina's gift would be treated as giving rise to a capital gain of £300,000 (£650,000 less £350,000).
4. Subject to any available annual exemption or capital losses (and gift relief explained below), Jaina would pay CGT on the whole of that gain.
5. Jaina's gift would be a disposal of her sole trade owned for more than a year.
6. This means that Jaina's gain would qualify for Entrepreneurs' Relief whether the business were gifted to Kareena or sold on, and therefore her gain would be charged at a 10% tax rate.
7. The rate of CGT would otherwise be 20% (on the assumption that Jaina is a higher rate taxpayer).
8. Entrepreneurs' relief must be claimed on or before the first anniversary of the 31 January following the tax year of the qualifying disposal.
9. Jaina has not paid CGT previously, so we can assume she has the full amount of £10M re Entrepreneurs' Relief available.
10. On a gift to Kareena, gift relief would be available.
11. Jaina and Kareena would need to make a joint election for gift relief. The time limit for a gift relief claim is four years from the end of the tax year of disposal.
12. Jaina's gain would be held over – deferred. It would only be subject to CGT when Kareena disposed of her interest in the property. But at that point Kareena would have a higher gain than if there had been no gift relief.
13. Jaina would not use up any of her lifetime limit for Entrepreneurs' Relief on the gift to Kareena if they made a gift relief election. Kareena would be likely to qualify for Entrepreneurs' Relief on when she eventually sold the business.
14. If elections for both reliefs are made, Gift Relief applies first.
15. A sale to a third party would give a gain based on proceeds, not market value, and no gift relief would be available.

B. CGT IN THE EVENT OF JAINA'S DEATH

16. Death is not an occasion of charge for CGT purposes.
17. Assuming that the restaurant passed to Kareena, she would inherit it with a base cost equal to market value at the date of death (probate value).

C. FACTORS INDICATING EMPLOYMENT STATUS FOR TAX

18. Only one paymaster – Kareena will work full time for Jaina

19. Control – Jaina maintains overall control
20. Hours and premises – set and these are dictated by Jaina
21. Integration – Kareena will be a key part of the business
22. Profit and risk – Kareena’s pay will be fixed rather than varying with profits. Kareena is not risking her own capital
23. Equipment – Although Kareen will provide utensils, the larger items are provided for her use.

D. WRITTEN DOCUMENTATION OF TERMS OF EMPLOYMENT

24. There is no necessity for a written employment contract, but an employer is required by statute to give an employee a written statement setting out certain terms of the contract.
25. Usually this must be done no later than two months following the commencement of the employment. However, most employers issue a full written contract to employees, which is likely to be useful in this case.

The points in D reflect our understanding but do not constitute legal advice, and need to be checked with a lawyer.

Sam

6 December 2018

23 marks maximum:

19 professional marks max, 6 professional marks

Technical marks: 1 per point above, with C max 4 and D max 2

Professional: including note format, clear language, structure and flow, all parts attempted, use of headings, flagging legal issues for consideration with lawyer, bonus for practical point eg registrations/need for PAYE

Task 5

a

- Drawings are irrelevant as far as the tax computation is concerned. Drawings will not be an allowable deduction in calculating Jaina's taxable profit.
- Kareena's salary will be taxable on her as employment earnings. It will be deducted when calculating Jaina's self-employed profits.

4 marks

b

- Jaina:
Class 2 flat rate as a self-employed person
Class 4 on self-employed profits
Class 1 secondary (employer) contributions as an employer (or accept comment re employment allowance covering this)
- Kareena:
Class 1 primary contributions as an employee

5 marks (1 ½ each for Class 1) with potential 1 bonus for NI EA

c

- Catering is standard rated
- Any supplies made with service provided would also be standard rated as catering.
- Cold food supplied to be taken away would be a zero-rated supply of food subject to none of the foodstuffs being specifically excepted from zero-rating. Any such excepted supplies would be standard rated.
- This would again be a zero-rated supply of food subject to none of the foodstuffs being specifically excepted from zero rating.

4 marks with potential for 1 bonus point re exceptions

d

Further points for consideration – only one needed:

– eg:

- Due diligence re restaurant business being acquired
- Register for SA if J does not already submit returns
- Consideration of accounting date
- Insurance (eg as employer)

1 Mark

18 marks maximum:

14 technical with 2 bonus, 4 professional marks

Technical: shown above

Professional: including concise/note form, clarity, distinguishing Kareena and Jaina in part b, reasonably neat.