
Answers

1 Hahn Ltd group

(a) Memorandum

Client Hahn Ltd group
Subject Group loss planning and other matters
Prepared by Tax senior
Date 8 September 2016

(i) Chargeable gain of Frit Ltd

The additional qualifying assets which would need to be purchased in order for the chargeable gain realised by Frit Ltd to be fully relieved by its capital losses brought forward is calculated as follows:

| | £'000 |
|--|-------|
| Sales proceeds of asset sold | 125 |
| Proceeds retained to equal capital losses brought forward | (31) |
| Proceeds to be spent | 94 |
| Qualifying assets already purchased by group companies (14 + 10) | (24) |
| Additional amount to be spent | 70 |

Tutorial notes:

1. The amount of the chargeable gain which cannot be rolled over will be the amount of sales proceeds not reinvested. Accordingly, an amount of £31,000 should not be reinvested, such that only £34,000 of the gain will be rolled over and the remaining £31,000 of the gain will be relieved by the capital losses brought forward.
2. The additional assets can be purchased by any member of the capital gains group. The group consists of all of the companies apart from Joli Ltd (not a 75% subsidiary of Hahn Ltd) and Ruth Ltd (not a 75% subsidiary of Lise Ltd). Therefore, the £6,000 spent on purchases of assets by Ruth Ltd does not represent a qualifying reinvestment for the purposes of rollover relief.

(ii) Relieving the trading loss of Frit Ltd

Intercompany trading

A transfer pricing adjustment will be required in respect of the sales at undervalue from Hahn Ltd to Stra Ltd. This is because Hahn Ltd controls Stra Ltd, and the group is large for the purposes of the transfer pricing rules. Accordingly, the trading profit of Hahn Ltd must be increased by £10,000 (£104,000 – £94,000), the excess of the arm's length price over the price charged for the intra-group sales. As Stra Ltd is also within the charge to UK corporation tax, its trading profits can be reduced by the same amount.

Rationale for the allocation of the trading loss

In order to maximise the benefit to the group's cash flow position, Frit Ltd's trading loss should be surrendered to those companies paying corporation tax by quarterly instalments.

- First to any company whose profits can be reduced to the payment by instalments threshold, such that instalments will no longer be required;
- then to any other company with profits in excess of the payment by instalments threshold, such that their instalments will be reduced;
- finally, to any other company.

The payment by instalments threshold for the Hahn Ltd group companies (excluding Chad Ltd) for the year ending 31 March 2017 is £300,000. This is the threshold of £1,500,000 divided by five (the number of 51% group companies as at 31 March 2016 being Hahn Ltd, Frit Ltd, Lise Ltd, Ruth Ltd and Stra Ltd).

The threshold for Chad Ltd for the year ending 31 March 2017 is £187,500. This is the threshold of £1,500,000 divided by eight (the number of 51% group companies in the Zeno Ltd group as at 31 March 2016, being Zeno Ltd and its effective 51% subsidiaries).

Tutorial note: The instalments threshold is divided by the number of 51% group companies as at the end of the *previous* accounting period.

Allocation of the loss

| | Note | £'000 |
|-------------------------|------|------------|
| Frit Ltd – trading loss | | 540 |
| Surrender to: | | |
| Lise Ltd (375 – 300) | 1 | (75) |
| Chad Ltd | 2 | (315) |
| Hahn Ltd – the balance | 3, 4 | <u>150</u> |

Notes

1. The taxable total profits of Lise Ltd should be reduced to no more than £300,000 so that the company will not have to pay corporation tax by instalments.
2. Chad Ltd will have been a member of the group relief group for only seven months of the accounting period. Accordingly, the maximum loss which can be surrendered by Frit Ltd to Chad Ltd is £315,000, i.e. the lower of:
Frit Ltd – loss for the corresponding seven-month period of £315,000 (£540,000 x 7/12); and
Chad Ltd – profit for the corresponding seven-month period of £393,750 (£675,000 x 7/12).
This is not sufficient to reduce the taxable total profits of Chad Ltd to £187,500 but it will reduce the company's corporation tax liability and therefore the instalments due.
3. The trading profit of Stra Ltd of £28,000 (£38,000 – £10,000) will be reduced to zero by its trading loss brought forward.
4. Joli Ltd and Ruth Ltd are not effective 75% subsidiaries of Hahn Ltd and are therefore not in the group relief group.

Tutorial note: It would be equally acceptable to surrender the balance of the loss of £150,000 to Lise Ltd rather than Hahn Ltd because the corporation tax liability of both companies is due on 1 January 2018 rather than by quarterly instalments.

Corporation tax liabilities for the year ending 31 March 2017

| | Hahn Ltd £'000 | Chad Ltd £'000 | Lise Ltd £'000 | Ruth Ltd £'000 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| Taxable total profit | 180 | 675 | 375 | 320 |
| Transfer pricing adjustment | 10 | | | |
| Group relief | (150) | (315) | (75) | Nil |
| | <u>40</u> | <u>360</u> | <u>300</u> | <u>320</u> |
| Corporation tax at 20%: | | | | |
| Due in instalments | | 72 | | 64 |
| Due on 1 January 2018 | <u>8</u> | | <u>60</u> | |

Frit Ltd and Stra Ltd will have no taxable total profits and therefore will not have a corporation tax liability.

Payment schedule

| Date | Payment £'000 | Working £'000 |
|-----------------|------------------|------------------------------------|
| 14 October 2016 | 34 | ($\frac{1}{4} \times (72 + 64)$) |
| 14 January 2017 | 34 | |
| 14 April 2017 | 34 | |
| 14 July 2017 | 34 | |
| 1 January 2018 | 68 | (8 + 60) |

(b) Group registration for the purposes of value added tax (VAT)

A group registration could be made in respect of all of the companies in the Hahn Ltd group with the exception of Joli Ltd (because this company is not controlled by Hahn Ltd). However, it is not necessary to include all of the qualifying companies within the group registration.

Sales from one company in the VAT group to another would be disregarded for the purposes of VAT. Therefore, there would be no requirement to charge VAT on the sales made by Hahn Ltd to Stra Ltd.

The annual accounting scheme is not available where companies are registered as a group. The cash accounting scheme would be available but only if the group's taxable turnover was less than £1,350,000. These matters should be considered before deciding whether or not Stra Ltd should be included in the group registration.

The inclusion of Frit Ltd in the group registration would result in the group being partially exempt. This could increase the total input tax recovered by the group, for example, if the results of the group as a whole satisfy the partial exemption *de minimis* limits. Alternatively, the calculation of the recoverable input tax for the group as a whole could result in a reduction

in the total input tax recovered. Accordingly, further consideration is required before deciding whether or not Frit Ltd should be included in the group registration.

(c) Chad Ltd – refund of VAT

We should investigate the VAT reporting of Chad Ltd in order to determine whether or not there is a valid reason for the refund.

If we are unable to identify a valid reason, we would have to conclude that the refund was made as a result of error on the part of HM Revenue and Customs (HMRC), in which case it should be repaid immediately. We should inform Chad Ltd that failing to return the money in these circumstances may well be a civil and/or a criminal offence.

We should also advise Chad Ltd to inform HMRC of their error as soon as possible in order to minimise any interest and penalties which may otherwise become payable.

If Chad Ltd is unwilling to return the money, we would have to consider ceasing to act as advisers to the company. We would then have to notify the tax authorities that we no longer act for Chad Ltd, although we would not provide them with any reason for our action. We should also consider whether or not it is necessary to make a report under the money laundering rules.

2 Waverley

(a) Unincorporated business

Final tax year of trading

The basis period for 2016/17, the final tax year of trading, is from 1 July 2015 to 15 January 2017. Accordingly, the taxable trading profit will be £197,550 (£125,400 + £72,150).

Any overlap profits from when Waverley began trading are deductible from this figure; this information is required in order to finalise the taxable trading profit.

Incorporation relief – conditions

- Waverley's unincorporated business must be transferred to Roller Ltd as a going concern.
- All of the assets of the unincorporated business, other than cash, must be transferred.
- The whole or part of the consideration for the transfer must be the issue of shares by Roller Ltd to Waverley.

Sale of the unincorporated business to Roller Ltd and subsequent sale of Roller Ltd

Disclaim incorporation relief

Sale of the unincorporated business to Roller Ltd (2016/17)

| Country of residence of Waverley: | £ | UK £ |
|---|---------|---------------|
| Chargeable gains arising (per question) | 190,000 | |
| Capital gains tax (CGT): £160,000 x 10% | | 16,000 |
| £30,000 x 28% | | 8,400 |
| | | <u>24,400</u> |

Sale of shares in Roller Ltd (2017/18)

| Country of residence of Waverley: | £ | UK £ | Surferia £ |
|--------------------------------------|---------------|---------------|---------------|
| Proceeds | 600,000 | | |
| Less: cost | (540,000) | | |
| Chargeable gain | <u>60,000</u> | | |
| CGT in the UK at 28% | | 16,800 | |
| CGT in Surferia at 12% | | | 7,200 |
| Total CGT (£24,400 + £16,800/£7,200) | | <u>41,200</u> | <u>31,600</u> |

Tutorial note: *Entrepreneurs' relief is not available in respect of goodwill transferred to a close company by a shareholder in that company.*

With incorporation relief

Sale of the unincorporated business to Roller Ltd (2016/17)

| Country of residence of Waverley: | £ | UK £ |
|--|------------|------------|
| Chargeable gains arising (£160,000 + £30,000)) | 190,000 | |
| Less: incorporation relief | (190,000) | |
| | <u>Nil</u> | <u>Nil</u> |

Sale of shares in Roller Ltd (2017/18)

| Country of residence of Waverley: | £ | UK £ | Surferia £ |
|-----------------------------------|----------------|---------------|---------------|
| Proceeds | 600,000 | | |
| Less: cost (£540,000 – £190,000) | (350,000) | | |
| Chargeable gain | <u>250,000</u> | | |
| CGT in the UK at 28% | | <u>70,000</u> | |
| CGT in Surferia at 12% | | | <u>30,000</u> |
| Total CGT | | <u>70,000</u> | <u>30,000</u> |

Conclusion

Whether or not Waverley should disclaim incorporation relief depends on whether he is resident in the UK or Surferia in the tax year 2017/18. If he is resident in the UK, he should disclaim incorporation relief as this will result in a lower overall CGT liability. However, if he is resident in Surferia, he should not disclaim incorporation relief as the relief will result in a lower overall CGT liability as well as a deferral of the date on which the tax is payable.

(b) Residence status

The number of days which Waverley can spend in the UK in 2017/18 without being UK resident will depend on the number of ties he has with the UK.

Waverley will definitely satisfy two ties:

- He was in the UK for more than 90 days in 2016/17, the previous tax year.
- In 2017/18 Waverley will have children under the age of 18 who are resident in the UK.

Waverley will also satisfy a third tie if he works in the UK for 40 days or more in 2017/18.

Waverley will not satisfy the following two ties in respect of 2017/18:

- He will not have accommodation in the UK available for his use.
- He will not be in the UK for more days than in any other country.

Accordingly, Waverley will satisfy either two or three ties.

Waverley was UK resident in the previous three tax years. Accordingly, if he works in the UK for 40 days or more, such that he satisfies three ties, he will only be able to spend up to 45 days in the UK without becoming UK resident.

If Waverley does not work in the UK for 40 days or more, he will only satisfy two ties, and will therefore be able to spend up to 90 days in the UK without becoming UK resident.

Tutorial note: The question states that Waverley will not be automatically UK resident in the tax year 2017/18. Accordingly, he must be in the UK for less than 183 days. The question also states that he will live in Surferia when he is not in the UK. Accordingly, he will spend more days in Surferia than he will in the UK.

(c) Investment property

CGT

The gain on the sale of the property will be subject to Surferian CGT because Waverley will be resident in Surferia when he sells the property.

That part of the gain which has accrued since 5 April 2015 will also be subject to CGT in the UK because residential property situated in the UK is subject to UK CGT regardless of the residence status of the person making the disposal.

It will therefore be necessary to consider the terms of the double tax treaty between the UK and Surferia. For example, the treaty might provide that the part of the gain on the property which would otherwise be taxed twice is only taxed in one of the two countries (double tax relief by exemption). Alternatively, it might allow the tax chargeable in one country to be deducted from the tax charged in the other (double tax relief by credit).

Inheritance tax (IHT)

Whether or not Waverley's gift to his sister will be within the scope of UK IHT will depend on Waverley's domicile status and the country in which the money is situated.

If the money is in a UK bank account it will be a UK asset, such that the gift will be within the scope of UK IHT regardless of Waverley's domicile status. If the money is in an overseas bank account it will be an overseas asset, such that it will only be subject to UK IHT if Waverley is domiciled or deemed domiciled in the UK.

In order to acquire a domicile of choice outside the UK, Waverley will need to leave the UK permanently and sever all of his links with the UK. Accordingly, whilst he has young children in the UK, and wishes to continue with his UK-based social activities, he will remain domiciled in the UK even though he will be living overseas.

In addition, even if Waverley were able to acquire a domicile of choice overseas, such that he loses his UK domicile status, for the purposes of IHT he will be deemed domiciled in the UK for a further three years and for any year where he has been UK resident for 17 out of the 20 years prior to the gift.

In conclusion, the gift of the proceeds from the sale of the investment property will be within the scope of UK IHT unless Waverley has acquired a domicile of choice overseas **and** is not deemed domiciled in the UK for the purposes of IHT.

3 Juanita

(a) Inheritance tax (IHT) liability on the Estar Ltd shares

Regardless of whether the shares in Estar Ltd were gifted to Lexi in Don's lifetime or on his death, IHT will be payable at the rate of 40% because the gift of the villa in 2011 has used the full nil rate band.

However, whether the shares were gifted or not will impact on their value in Don's death estate under the related property valuation rules.

The IHT due in respect of the Estar Ltd shares on Don's death as a result of his making the lifetime gift to Lexi is £52,240 (£27,040 + £25,200) (W).

If all the shares had been retained by Don until his death, the IHT payable in respect of the shares would have been £67,200 (7,000 x £24 x 40%).

Therefore there is a reduction in the IHT liability on the Estar Ltd shares of £14,960 (£67,200 – £52,240).

(W) Value of the lifetime gift of 3,500 shares:

Related property rules apply as the shares in Estar Ltd were held by both Don and Juanita at the date of the gift.

| | £ |
|--|----------|
| Value before the gift: 7,000 shares at £20 (70% + 30%) | 140,000 |
| Value after the gift: 3,500 shares at £15 (35% + 30%) | (52,500) |
| Diminution in value | 87,500 |
| Business property relief not available (as per question) | |
| Annual exemption 2012/13 | (3,000) |
| 2011/12 (used on gift of villa) | 0 |
| Gross chargeable transfer | 84,500 |
| IHT at 40% | 33,800 |
| Less: taper relief at 20% | (6,760) |
| IHT payable by Lexi | 27,040 |

The remaining 3,500 shares held by Don at the date of his death will give rise to an IHT liability on his death of £25,200 (40% x 3,500 x £18 (35% + 30%)).

(b) Cessation of trade on 28 February 2017

The profits of the year ended 30 June 2016 of £51,000 will be taxed in the tax year 2016/17.

If Juanita ceases to trade on 28 February 2017, the profits of her final accounting period will also be taxed in this tax year.

The tax liability in respect of the profits of the final accounting period will therefore be as follows:

| | £ |
|--|----------|
| Tax-adjusted profit for the eight months ending 28 February 2017 | 48,000 |
| Add: balancing charge (£nil – £6,000) | 6,000 |
| Less: overlap profits | (17,000) |
| Taxable trading profit | 37,000 |
| Income tax (£37,000 x 40%) | 14,800 |
| Class 4 NIC (£37,000 x 2%) | 740 |
| Class 2 NIC (£2.80 x 8 x 4) | 90 |
| Total deductions | 15,630 |

Income after tax and national insurance contributions is £32,370 (£48,000 – £15,630).

Cessation of trade on 30 April 2017

If Juanita continues to trade until 30 April 2017, the profits of her final accounting period will be taxed in 2017/18.

The liability for this final period will therefore be:

| | £ |
|--|----------|
| Tax-adjusted profit for the ten months ending 30 April 2017 (£48,000 + £4,000 + £4,000) | 56,000 |
| Add: balancing charge | Nil |
| Less: overlap profits | (17,000) |
| Taxable trading profit | 39,000 |
| Income tax ((£39,000 – £10,600) x 20%) | 5,680 |
| Class 4 NIC ((£39,000 – £8,060) x 9%) | 2,785 |
| Class 2 NIC (£2.80 x 10 x 4) | 112 |
| Total deductions | 8,577 |

Income after tax and national insurance contributions is £47,423 (£56,000 – £8,577).

The increase in income after tax and national insurance contributions of £15,053 (£47,423 – £32,370) exceeds the amount of the additional two months profits of £8,000 (2 x £4,000). It is therefore beneficial for Juanita to continue to trade until 30 April 2017.

Availability of capital allowances

No writing down allowance is available in the final accounting period of a business. A balancing adjustment will, however, arise on the disposal of the assets. The sale proceeds will exceed the written down value of the assets at the start of the final period, so a balancing charge will arise.

If the sale is delayed until 30 April 2017, and the business is transferred to Lexi, then as Juanita and Lexi are connected persons, a succession election can be made to transfer the plant and machinery to Lexi at its written down value at 30 April 2017, thereby avoiding the balancing charge.

4 Methley Ltd

(a) Simon – company share option scheme (CSOP) versus employee shareholder shares

Acquisition of the shares

Under a CSOP, there will be no charge to income tax in respect of the grant or exercise of the option given that Simon intends to exercise the option between three and ten years after the date of the grant.

There will be a charge to income tax if Simon receives employee shareholder shares. Simon would, however, be deemed to have paid £2,000 for the shares, so only the excess value over this amount would be taxable. Accordingly, Simon would have an income tax liability of £9,200 ((£25,000 – £2,000) x 40%) in the tax year 2017/18.

Disposal of the shares

On disposal of the CSOP shares by Simon in the tax year 2022/23, any gain will be subject to capital gains tax (CGT). The gain will be calculated by reference to the amount paid for them.

As the value of the employee shareholder shares on acquisition will not exceed £50,000, any gain on the first disposal by Simon in 2022/23 will be exempt from CGT. However, any loss will not be allowable for CGT purposes.

Tutorial note: As Simon is a director of Methley Ltd, and will have held the shares for more than one year, any gain on disposal of the CSOP shares may qualify for entrepreneurs' relief and a 10% rate of CGT provided Methley Ltd remains a trading company and Simon holds at least 5% of the ordinary share capital and the voting rights.

(b) Chris – provision of benefits

Provision of the company motor car

List price of the motor car: £10,400 (£9,600 + £800)
Percentage to be used: 19% (14% + 1/5(105 – 95) + 3%)
Annual benefit: £1,976 (£10,400 x 19%)

The total amount taxable as employment income is therefore £10,128 (£3,828 (£1,976 – £700) x 3 + £6,300) and the income tax cost to Chris is £4,051 (£10,128 x 40%).

Provision of the loan

As the amount of the interest-free loan never exceeds £10,000, there is no taxable benefit in respect of it.

When the loan is written off, this will be treated as a distribution as Chris is a shareholder in Methley Ltd, which is a close company. Accordingly, an income tax charge of £2,400 (£9,600 x 25%) will arise in the year the loan is written off.

Provision of the loan will therefore result in a lower overall income tax liability for Chris.

(c) Yara – UK income tax on overseas income in the tax year 2015/16

As Yara has been resident in the UK for seven tax years prior to 2015/16, she will be liable to pay a remittance basis charge of £30,000 if she continues to elect for the remittance basis.

In previous years Yara paid UK income tax of £6,000 (£15,000 x 40%) on her foreign rental income remitted to the UK. She would not have been liable to pay the remittance basis charge.

Claiming the remittance basis in 2015/16 would increase her income tax liability by £30,000 to £36,000 (£6,000 + £30,000).

However, if Yara does not claim the remittance basis in 2015/16, she will be taxed on the arising basis instead. In this case, she will pay tax on the full amount of the foreign rental income arising in the tax year of £24,000. This will result in UK income tax payable of £9,600 (£24,000 x 40%).

Yara will also be entitled to the personal allowance, which she lost in previous years when the remittance basis was claimed. As her net income will be £104,000 (£80,000 + £24,000), the personal allowance available will be restricted to £8,600 ((£10,600 – 0.5 x (£104,000 – £100,000))). This will result in an income tax saving of £3,440 (£8,600 x 40%).

Therefore Yara's income tax on her foreign rental income on the arising basis, net of the tax saving as a result of the personal allowance, will be £6,160 (£9,600 – £3,440).

Claiming the remittance basis would not be beneficial for Yara in 2015/16. Accordingly, her income tax liability for 2015/16 in respect of her foreign rental income will increase by £160 (£6,160 – £6,000) compared to that payable in previous years.

5 (a) Acryl Ltd

(i) Implications of the commencement of winding up

The commencement of winding up will lead to the end of an accounting period on 31 December 2016 and the commencement of a new accounting period on 1 January 2017.

Acryl Ltd will remain liable to corporation tax until the winding up is completed. Accordingly, a corporation tax computation is required for each of the two accounting periods: the first from 1 July 2016 to 31 December 2016, and the second from 1 January 2017 to 31 March 2017.

(ii) Distribution on 31 December 2016

In this case the distribution will be made prior to the commencement of winding up and therefore will be treated as an income distribution (i.e. a normal dividend) for tax purposes for both shareholders.

Mambo Ltd will not be subject to corporation tax on this dividend as companies are not subject to corporation tax on dividends.

Alan will be subject to income tax on the dividend. It will be grossed up at the rate of 100/90 and subject to income tax at 37.5% as Alan is an additional rate taxpayer. A 10% tax credit will be available.

Tutorial note: *This means that Alan will suffer an effective tax rate of 30.55% on the net dividend he receives.*

Distribution on 31 March 2017

As the distribution will be made while the company is in liquidation, it will be treated as a capital receipt on disposal of the shares in Acryl Ltd for both shareholders.

Mambo Ltd should not be subject to corporation tax on the disposal as it should qualify as a disposal out of a substantial shareholding. Mambo Ltd will have held more than 10% of the shares in Acryl Ltd for more than 12 continuous months out of the 24 months preceding the disposal and both companies are trading companies.

Alan will be subject to capital gains tax on any gain arising. As Alan is eligible for entrepreneurs' relief on the disposal of his Acryl Ltd shares, capital gains tax will be charged at 10% on the taxable gain.

Conclusion

Mambo Ltd will not be subject to corporation tax under either alternative but Alan would probably prefer 31 March 2017 as he is likely to suffer a lower rate of tax if the distribution is made on this date.

Tutorial note: *It is not necessary to consider the possibility of a capital loss on receipt of the distribution on 31 March 2017. Mambo Ltd and Alan subscribed for the shares at par, so they will have a very low base cost and Acryl Ltd has substantial distributable profits.*

(b) (i) Cresco Ltd – relief for trading losses

| | Year ended 31 March 2013 £ | Year ended 31 March 2014 £ | Year ended 31 March 2015 £ | Year ended 31 March 2016 £ | Period ending 31 October 2016 £ |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--|
| Trading income | Nil | 21,000 | 8,000 | Nil | Nil |
| Less: loss brought forward (Note 1) | | (4,000) | | | |
| | | 17,000 | | | |
| Bank interest receivable | 1,000 | 3,000 | 3,000 | Nil | Nil |
| | 1,000 | 20,000 | 11,000 | | |
| Less: | | | | | |
| Loss for the year ended 31 March 2013 (Note 1) | (1,000) | | | | |
| Loss for the year ended 31 March 2016 (Note 2) | | | (11,000) | | |
| Loss for the 12 months ending 31 October 2016 (Note 3) | | (20,000) | | | |
| | Nil | Nil | Nil | Nil | Nil |

Losses unrelieved:

| | |
|---|--------|
| | £ |
| Year ended 31 March 2016: (£24,000 – £11,000 – £10,000) | 3,000 |
| Terminal loss: (£50,000 – £20,000) | 30,000 |
| Total unrelieved: | 33,000 |

Tutorial note: £10,000 of the trading loss in the year ended 31 March 2016 is included as part of the terminal loss and used against the profits of the year ended 31 March 2014 (see note 3 below).

Notes:

1. The trading loss for the year ended 31 March 2013 of £5,000 will have been relieved against the £1,000 of bank interest (total profits) in the year, and then carried forward against the £21,000 of trading profit in the following year. A trading profit of £17,000 (£21,000 – £4,000) remains in the year ended 31 March 2014.
2. As there is no other income or gains in the year ended 31 March 2016, the trading loss of £24,000 will have been carried back and offset against the total profits in the year ended 31 March 2015 of £11,000 (£8,000 + 3,000). £13,000 of the loss remains unrelieved. However, £10,000 of this forms part of the terminal loss (see note 3).
3. As Cresco Ltd has ceased to trade on 31 October 2016, the loss of the last 12 months of trading is a terminal loss which is eligible to be carried back up to 36 months. The loss available for such relief is £50,000 (£40,000 + (£24,000 × 5/12), including the five months of loss for the period from 1 November 2015 to 31 March 2016. As there are no profits remaining in the years ended 31 March 2016 or 2015, the loss can be offset against the total profits of £20,000 (£17,000 + £3,000) in the year ended 31 March 2014.

(ii) Value added tax (VAT) implications of the cessation of trade

Cresco Ltd must notify HM Revenue and Customs of the cessation of its business within 30 days of ceasing to make taxable supplies.

Output tax must be accounted for on any business assets it still holds at the date of cessation of trade in respect of which input tax was previously recovered. However, there is no need to account for this output tax if it is less than £1,000.

| | | <i>Available</i> | <i>Maximum</i> |
|---|---|------------------|------------------|
| 1 | (a) (i) Calculation | 3.5 | |
| | | <u>3.5</u> | 3 |
| | (ii) Transfer pricing | 3.5 | |
| | Rationale for loss planning | 2 | |
| | Threshold for payment by instalments | 2.5 | |
| | Members of group relief group | 1 | |
| | Allocation of loss between group companies | 4 | |
| | Corporation tax liabilities | 5 | |
| | Payment schedule | 4 | |
| | | <u>22</u> | 18 |
| | (b) Companies to be included | 2 | |
| | Sales between members of the VAT group | 1 | |
| | VAT schemes | 2 | |
| | Frit Ltd | 1 | |
| | | <u>6</u> | 5 |
| | (c) The need to repay the tax | 3 | |
| | Ceasing to act | 3 | |
| | | <u>6</u> | 5 |
| | Problem solving | 1 | |
| | Clarity of explanations and calculations | 1 | |
| | Effectiveness of communication | 1 | |
| | Overall presentation | 1 | |
| | | <u>4</u> | 4 |
| | Total | | <u>35</u> |
| 2 | (a) Taxable trading profits | 2.5 | |
| | Sale of business to Roller Ltd | | |
| | Incorporation relief conditions | 2 | |
| | Calculations without incorporation relief | 2 | |
| | Calculations with incorporation relief | 1 | |
| | Sale of Roller Ltd | | |
| | Chargeable gain on disposal | 2.5 | |
| | Capital gains tax | 2 | |
| | Conclusion | 2 | |
| | | <u>14</u> | 12 |
| | (b) Consideration of each tie | 5 | |
| | Conclusions | 2 | |
| | | <u>7</u> | 6 |
| | (c) Capital gains tax | | |
| | Gain on UK property | 2 | |
| | Relief under the treaty | 2 | |
| | <i>An additional discretionary mark may be given for the administrative requirements of capital gains tax</i> | | |
| | Inheritance tax | | |
| | Liability to UK inheritance tax | 1 | |
| | Cessation of UK domicile | 2 | |
| | Deemed domicile | 1 | |
| | Conclusion | 1 | |
| | | <u>9</u> | 7 |
| | Total | | <u>25</u> |

| | | <i>Available</i> | <i>Maximum</i> |
|----------|---|------------------|------------------|
| 3 | (a) Value of shares gifted | 3 | |
| | IHT on gifted shares | 3 | |
| | IHT on remaining shares in the death estate | 1.5 | |
| | IHT if all the shares are in the death estate | 1 | |
| | IHT saving | 0.5 | |
| | | <u>9</u> | 8 |
| | (b) Cessation on 28 February 2017 | | |
| | Taxable trading profit 2016/17 | 2 | |
| | Income tax | 1 | |
| | Class 4 NIC | 0.5 | |
| | Class 2 NIC | 1 | |
| | Income after tax and NIC | 0.5 | |
| | Cessation on 30 April 2017 | | |
| | Taxable trading profit 2017/18 | 2 | |
| | Income tax | 1 | |
| | Class 4 NIC | 1 | |
| | Class 2 NIC | 0.5 | |
| | Income after tax and NIC | 0.5 | |
| | Comments re capital allowances | 3.5 | |
| | Conclusion | 0.5 | |
| | | <u>14</u> | <u>12</u> |
| | Total | | <u>20</u> |
| 4 | (a) Acquisition of the shares | | |
| | Company share option scheme | 2 | |
| | Employee shareholder shares | 2.5 | |
| | Disposal of shares | | |
| | Company share option scheme | 1 | |
| | Employee shareholder shares | 2 | |
| | | <u>7.5</u> | 7 |
| | (b) Company car | 3 | |
| | Beneficial loan | 2.5 | |
| | Conclusion | 0.5 | |
| | | <u>6</u> | 6 |
| | (c) 2015/16 remittance basis | 3 | |
| | 2015/16 arising basis | 3.5 | |
| | Remittance basis claim not beneficial | 0.5 | |
| | Increase in liability | 0.5 | |
| | | <u>7.5</u> | <u>7</u> |
| | Total | | <u>20</u> |

| | | <i>Available</i> | <i>Maximum</i> |
|----------|---|------------------|----------------|
| 5 | (a) (i) Effect on accounting periods Two computations required | 1 | |
| | | 1 | |
| | | <hr/> | |
| | | 2 | 2 |
| | (ii) Distribution 31 December 2016 Distribution 31 March 2017 Recommendation with reason | 3 | |
| | | 5 | |
| | | 1 | |
| | | <hr/> | |
| | | 9 | 7 |
| | (b) (i) Loss year ended 31 March 2013 Loss year ended 31 March 2016 Terminal loss Loss unrelieved | 1·5 | |
| | | 1·5 | |
| | | 5 | |
| | | 1 | |
| | | <hr/> | |
| | | 9 | 8 |
| | (ii) Notify HMRC Output tax on assets held on cessation | 1 | |
| | | 2 | |
| | | <hr/> | |
| | | 3 | 3 |
| | Total | | <hr/> |
| | | | 20 |