Answers

1 Ray and Shanira

Memorandum

Client	Ray and Shanira
Subject	Various personal tax matters
Prepared by	Tax senior
Date	9 June 2016

(a) Ray – unincorporated business

(i) Payments of tax and national insurance contributions

Income tax and class 4 national insurance contributions

31 January 2018	Amount payable in respect of 2016/17 (W)	£12,767
	First payment on account for 2017/18 (£12,767 x 0·5)	£6,383
31 July 2018	Second payment on account for 2017/18	£6,384

Class 2 national insurance contributions

2016/17 £119 (£2·75 x 52 x 10/12)

Payable in two instalments on 31 January 2017 ($^{4}/_{10}$) and 31 July 2017 ($^{6}/_{10}$).

2017/18 £143 (£2·75 x 52)

Payable in two instalments on 31 January 2018 and 31 July 2018.

Tutorial notes:

1. *Ray will not be required to make payments on account of his tax liability for the tax year 2016/17 because the whole of his tax liability for the previous year was settled via tax deducted at source.*
2. *The instalments required in respect of the class 2 national insurance contributions will be calculated by reference to the number of weeks in each half of the tax year that Ray is carrying on his trade. This has been simplified to the nearest month in this answer.*
3. *Credit was also available where candidates explained that class 2 national insurance contributions can be paid by direct debit or to candidates who outlined the new Finance Act 2015 payment dates of 31 January 2018 (2016/17) and 31 January 2019 (2017/18).*

Working

2016/17 – income tax and class 4 national insurance contributions payable

		£	£
Income tax liability (per schedule)			10,762
Less: tax credits	interest income (£3,000 x 20/80)		(750)
	dividend income (£3,420 x 10/90)		(380)
Income tax payable			9,632
Class 4 national insurance contributions			
(£41,865 – £7,956) x 9%		3,052	
(£46,000 – £41,865) x 2%		83	
			3,135
			12,767

Effect on taxable income of increasing inventory or acquiring additional equipment

Ray will be subject to income tax on his tax adjusted trading profit regardless of whether or not he withdraws the profits from the business.

However, the cost of any additional equipment will be deducted from his tax adjusted trading profit due to the availability of the 100% annual investment allowance, such that using the profits in this way will reduce Ray's taxable trading profit and thus his taxable income for the period in which the expenditure is incurred.

Conversely, because Ray's profits are calculated on the accruals basis, an increase in inventory levels will not have an immediate effect on his tax adjusted trading profit; the increase in purchases will be cancelled out by the corresponding increase in the closing level of inventory. Accordingly, using the profits in this way will not reduce Ray's taxable income for the period in which the expenditure is incurred.

An immediate tax deduction would be available for the cost of the inventory purchased if the cash basis were used instead of the accruals basis when calculating profits.

(ii) Value added tax (VAT)

Information required in order to advise on voluntary registration

- The nature of the goods or services supplied by Ray's business.

  Ray cannot register for VAT if he is only making exempt supplies; he must be making some taxable supplies.

- The extent to which Ray's customers are registered for VAT.

  Once he is registered for VAT, Ray will have to charge VAT on his standard rated supplies. Those customers who are not registered for VAT will be unable to recover this VAT, such that the addition of VAT would represent a price increase for them. If these customers will not bear such an increase, then Ray may well be worse off because his recovery of input tax will not be sufficient to compensate him for the output tax which he has been unable to pass on to his customers.

Input tax in respect of the computer

It is possible to recover input tax incurred in the four years prior to registering for VAT in respect of goods (whether inventory for resale or non-current assets) provided the goods are still owned at the date of registration. However, the recovery of input tax in respect of the computer will be restricted to the proportion of the time for which it is used for the purposes of the business.

(b) Gifts from Shanira to Ray

(i) Capital gains tax

House in the country of Heliosa

The chargeable gain on the gift of the house was £80,000 (£360,000 – £280,000). This will result in a UK capital gains tax (CGT) liability of £19,320 ((£80,000 – £11,000) x 28%).

The UK CGT will be reduced by double tax relief in respect of any CGT payable in Heliosa. Therefore, in order to finalise Shanira's CGT liability, we will need to confirm the amount of CGT payable in Heliosa on the sale of the house.

The UK CGT is due to be paid on 31 January 2017.

Proposed gifts

Before the wedding, a gift from Shanira to Ray will be treated as a disposal at market value, giving rise to either a chargeable gain or an allowable loss. After the wedding, no chargeable gain or allowable loss will arise on any assets sold or gifted by Shanira to Ray, or vice versa. Instead, the asset will be treated as having been disposed of for an amount equal to the disposer's CGT base cost.

Painting

The painting is currently worth less than its cost. Accordingly, it should be given to Ray before the wedding in order to realise the capital loss of £8,000 (£7,000 – £15,000).

Tutorial note: *Although a gift of the painting prior to the wedding will result in a lower CGT base cost for Ray (£7,000 as opposed to £15,000), given that the couple wish to retain the painting rather than sell it in the future, this is not an issue.*

Shares in Solaris plc

Shares given to Ray prior to the wedding will have a CGT base cost for Ray equal to their market value at the time of the gift, i.e. £9·20 per share. Shares given after the wedding will have a CGT base cost for Ray equal to Shanira's base cost, which is substantially lower. Accordingly, prior to the wedding, Shanira should give Ray the maximum number of shares which she can without giving rise to a CGT liability.

Shanira will have a capital loss in respect of the gift of the painting of £8,000. She will also have her annual exempt amount for 2016/17 of £11,000. Accordingly, she can make a chargeable gain of £19,000 without giving rise to a CGT liability.

The chargeable gain on a gift of all 7,400 shares would be:

	£
Proceeds at market value (7,400 x £9·20)	68,080
Less: cost (W)	(10,468)
Chargeable gain	57,612
Chargeable gain per share sold (£57,612/7,400)	7·79

In order to realise a chargeable gain of £19,000, Shanira should give Ray 2,439 (£19,000/£7·79) of the shares prior to the wedding. The remaining 4,961 shares should not be gifted until after they are married.

Working

Sale proceeds in respect of the shares in Beem plc

	£
Shares in Solaris plc (7,400 x £8·40)	62,160
Cash	14,800
Total proceeds	76,960

Base cost in respect of Solaris plc shares (paper-for-paper):
£12,960 x (£62,160/£76,960) = £10,468

(ii) Inheritance tax

The maximum inheritance tax (IHT) liability in respect of the gift of the painting and the first tranche of shares made before the wedding will arise if Shanira were to die within three years of the gifts, such that no taper relief would be available. There would be no IHT payable in respect of the gift of shares made after the wedding, as this will be an exempt inter-spouse transfer.

There would also be IHT to pay in respect of the gift of the house in Heliosa, but this will arise regardless of whether the CGT planning is carried out or not.

	£	£	£
Painting			7,000
Shares in Solaris plc (2,439 x £9·20)			22,439
Transfer of value			29,439
Less: annual exemption for 2016/17			(3,000)
			26,439
Nil rate band at time of death		325,000	
Less:			
Chargeable transfers in the previous seven years	360,000		
Less: annual exemptions for 2015/16 and 2014/15	(6,000)		
		(354,000)	
Available nil rate band			(nil)
			26,439
IHT at 40%			10,576

Tutorial note: *A marriage exemption of £2,500 would be available if one of the gifts was made conditional on the marriage taking place.*

2 Gail

(a) Schedule prepared by Mill

The computation

– The chargeable gain on the sale of the Simpson Building is incorrect. The sale of the building on 1 October 2012 will have taken place at no gain, no loss because Aero Ltd (A Ltd) and Zephyr Ltd (Z Ltd) were in a capital gains group (A Ltd owns at least 75% of Z Ltd). Accordingly, Z Ltd's base cost in the building is the amount paid for the building by A Ltd plus indexation allowance up to the date of the no gain, no loss transfer.

– The post-tax proceeds on the sale of the Simpson Building will be the sale proceeds (not the chargeable gain) less the related corporation tax liability.

– Dividend income received by UK companies is generally not subject to corporation tax. Accordingly, A Ltd will not have a corporation tax liability in respect of the dividend received from Z Ltd.

The notes

1. The substantial shareholding exemption is available where a trading company sells shares in another trading company out of a substantial shareholding (a shareholding of at least 10%) of that company's ordinary share capital. The substantial shareholding must have been owned for a continuous period of at least 12 months in the two years prior to the sale.

   Accordingly, the SSE will only be available if A Ltd and Z Ltd are both trading companies.

2. There will not be a degrouping charge in respect of the Torro Building. A degrouping charge would only arise if an asset had been transferred to Z Ltd at no gain, no loss within six years of the sale of Z Ltd.

   Tutorial note: *For a degrouping charge to arise it would also be necessary for Z Ltd to still own the asset when A Ltd sells Z Ltd.*

Cash available to pay to Gail as a result of transactions (1) and (2)

		£	£
Sale of the Simpson Building by Z Ltd			
Sale proceeds			140,000
Less: cost			
	cost to A Ltd	75,000	
	indexation allowance (December 2004 to October 2012) £75,000 x 0·293	21,975	
			(96,975)
Less: indexation allowance (October 2012 to June 2016)	£96,975 x 0·080		(7,758)
Chargeable gain			35,267
Corporation tax at 21%			7,406
Dividend paid to A Ltd (£140,000 – £7,406)			132,594
Sale of Z Ltd			
Sale proceeds in respect of Z Ltd			250,000
Total cash available for Gail			382,594

(b) **Payment to Gail**

Payment of a bonus of £382,594 – total additional taxes

	£
Annual employment income	85,000
Bonus	382,594
Personal allowance	Nil
Taxable income	467,594

£		£
31,865	x 20%	6,373
118,135	x 40%	47,254
150,000		
317,594	x 45%	142,917
467,594		196,544

	£
Recurring income tax liability on £85,000 of taxable income	(23,627)
Additional income tax	172,917
Employee's Class 1 national insurance contributions (£382,594 x 2%)	7,652
Employer's Class 1 national insurance contributions (£382,594 x 13·8%)	52,798
Reduction in A Ltd's corporation tax liability ((£382,594 + £52,798) x 21%)	(91,432)
Total additional taxes where a bonus is paid	141,935

Tutorial note: *The reduction in the corporation tax liability will be dependent on there being sufficient taxable profits to absorb the tax deductions.*

Payment of a dividend of £382,594 – total additional taxes

		£
Annual employment income		85,000
Dividend income (£382,594 x 100/90)		425,104
Personal allowance		Nil
Taxable income		510,104
£		
31,865	x 20%	6,373
53,135	x 40%	21,254
85,000		
65,000	x 32·5%	21,125
360,104	x 37·5%	135,039
510,104		
Tax credit (£425,104 x 10%)		(42,510)
		141,281
Recurring income tax liability on £85,000 of taxable income		(23,627)
Total additional taxes where a dividend is paid		117,654

There will be no national insurance contribution or corporation tax implications as a result of the payment of the dividend.

(c) Disclosure of error

The error made by Gail must be disclosed to HM Revenue and Customs (HMRC).

Gail can inform HMRC herself or she may authorise us to do so. However, we must not disclose the error to HMRC unless we have her permission.

We cannot continue to act for Gail unless this disclosure is made.

We should ascertain how the error arose in order to determine whether or not there are further errors to disclose.

We should inform the firm's money laundering officer of the situation.

We should notify Gail of the following consequences of not informing HMRC of her error:

– If she refuses to disclose the error, we will advise HMRC that we no longer act for her. We would not, however, give any reason for our actions.

– Non-disclosure of the error would also amount to tax evasion. This could result in criminal proceedings under both the tax and money laundering legislation.

3 Eric

(a) Chargeable gains 2014/15

Part disposal in respect of damaged painting

	£
Insurance proceeds received	10,000
Less: cost £46,000 x £10,000/(£10,000 + £38,000)	(9,583)
Chargeable gain	417

Disposal of Malaga plc shares

	£
Sale proceeds (£11·50 x 6,000)	69,000
Less: cost (W)	(51,000)
Chargeable gain	18,000

Total after-tax proceeds	
Total chargeable gains (£417 + £18,000)	18,417
Less: annual exemption	(11,000)
Taxable gains	7,417

Capital gains tax payable is £2,077 (£7,417 x 28%).
After-tax proceeds are £76,923 (£10,000 + £69,000 – £2,077).

Working:

1 April 2010: Gain on gift from sister (£126,000 – £96,000)	£30,000
Gain eligible for gift relief (£30,000 x 80%)	£24,000
Base cost of shares for Eric (£126,000 – £24,000)	£102,000

Cost of the shares sold is £51,000 (£102,000 x ½).

Tutorial notes:

1. *The compensation received in respect of the damaged painting cannot be deducted from the cost of the painting rather than treated as a part disposal, because it exceeds 5% of the value of the painting.*
2. *Relief would be available in computing the gain on the disposal of the Malaga plc shares for the inheritance tax paid by Eric following his sister's death on 1 September 2011. However, no inheritance tax figures were given and candidates were not expected to consider this point.*
3. *As Eric's sister owned more than 5% of the issued ordinary shares in Malaga plc, it was her personal company for the purpose of gift relief. Accordingly, the proportion of the gain which was eligible for gift relief was restricted to the fraction chargeable business assets/total chargeable assets.*

(b) (i) Inheritance tax reliefs available if Eric dies on 31 March 2016

Farmland

Agricultural property relief will be available on the farmland, but only on its agricultural value of £340,000. It will be available at the rate of 100% as the land will have been owned by Eric for more than seven years prior to his death and occupied by a tenant farmer throughout this period.

Business property relief (BPR) will not be available on the excess of the market value over the agricultural value of the land as Eric does not farm the land himself.

Malaga plc shares

No BPR will be available in respect of these shares as they are quoted shares and Eric does not have control of the company.

Quick succession relief (QSR) will be available as a tax credit to reduce the inheritance tax payable in respect of these shares as part of Eric's death estate. This is because the shares will have been subject to inheritance tax twice within a five-year period, i.e. on the potentially exempt transfer becoming chargeable on the death of Eric's sister, and again within Eric's death estate.

QSR is calculated as:

$$\text{Inheritance tax paid on his sister's death} \times \frac{\text{net transfer}}{\text{gross transfer}} \times \text{relevant percentage}$$

The relevant percentage is 20% as the period between the date of his sister's death (which gave rise to the first charge to inheritance tax), and Eric's death will be 4–5 years.

(ii) Impact on inheritance tax liability if Eric does not die until 1 August 2016

The lifetime gift to Zak of £60,000 on 1 July 2009 will now be more than seven years prior to the date of death so is no longer taken into account in calculating the inheritance tax on Eric's death estate. This will mean that there is an additional £54,000 (£60,000 – (2 x £3,000 annual exemptions)) of nil rate band available to use against the death estate than there would have been if Eric had died on 31 March 2016.

As Eric's chargeable estate is worth considerably in excess of £325,000, this will result in an inheritance tax saving of £21,600 (£54,000 x 40%).

There will be no impact on the amount of QSR available as the period between the date of his sister's death and Eric's death will still be 4–5 years.

(c) **Zak's 2015/16 taxable income**

	£
Yoyo Ltd fee income	110,000
Less: 5% deduction	(5,500)
	104,500
Less: salary	(24,000)
employer's NIC on salary ((£24,000 – £7,956) x 13·8% – £2,000)	(214)
	80,286
Less: employer's NIC on deemed payment $\frac{13{\cdot}8}{113{\cdot}8}$ x £80,286	(9,736)
Deemed employment income	70,550

Zak – taxable income 2015/16

	£
Total income from Yoyo Ltd (£24,000 + £70,550)	94,550
Less: personal allowance	(10,000)
Taxable income	84,550

Tutorial notes:

1. *As Zak is the sole employee of Yoyo Ltd, the employment allowance of £2,000 will have been deducted from the employer's NIC payable.*
2. *As all the profits of Yoyo Ltd are deemed to have been paid to Zak as employment income, to avoid double taxation, no further tax will arise in respect of the 'dividends', which are treated as exempt income.*

4 Maria and Granada Ltd

(a) **(i)** **Sale of 2,700 shares back to Granada Ltd**

For capital gains tax treatment to apply, Maria's shareholding in Granada Ltd must be reduced to no more than 75% of her pre-sale holding.

Maria has a 25% shareholding before the sale. Therefore, after the sale her shareholding must be reduced to no more than 18·75% (75% x 25%).

The total number of shares in issue after the sale will be reduced as the shares repurchased by the company are cancelled.

Maria will hold 7,300 (10,000 – 2,700) shares out of 37,300 ((10,000 x 4) – 2,700) total shares in issue. This is a 19·6% (7,300/37,300 x 100%) holding, i.e. greater than 18·75%, so that the condition relating to the reduction in the level of shareholding will not be met.

Sale of 3,200 shares back to Granada Ltd

Maria will now hold 6,800 (10,000 – 3,200) shares out of 36,800 (40,000 – 3,200) total shares in issue. This is an 18·5% (6,800/36,800 x 100%) holding, i.e. less than 18·75%, so that the condition relating to the reduction in the level of shareholding will be met.

(ii) **Sale of 2,700 shares back to Granada Ltd**

The income tax payable in respect of each share is £2·95 ((£12·80 – £1·00) x 25%).

The post-tax proceeds per share are therefore £9·85 (£12·80 – £2·95).

Tutorial notes:

1. *As Maria does not satisfy all of the conditions for this sale to be dealt with under the capital gains tax rules, the disposal will be treated as an income distribution and Maria will have an income tax liability.*
2. *The net dividend is the difference between the sale proceeds and the amount originally subscribed.*
3. *As Maria is a higher rate taxpayer, the effective rate of tax payable on dividends is 25% ((32·5 – 10)%/0·9).*

Sale of 3,200 shares back to Granada Ltd

The capital gains tax payable in respect of each share is £1·18 ((£12·80 – £1·00) x 10%).

The post-tax proceeds per share are therefore £11·62 (£12·80 – £1·18).

Tutorial note: *The disposal will qualify for entrepreneurs' relief as Maria holds more than 5% of the ordinary shares of Granada Ltd and is a director of the company. The capital gain arising will therefore be taxed at 10%.*

(b) (i) Acquisition of the 'Starling' brand

As the brand is an intangible asset which has been acquired as part of the 'Starling' trade, it will be treated as a trading asset by Granada Ltd and an allowable deduction will be available in calculating the taxable trading income for each accounting period.

Although Granada Ltd has not made any charge for amortisation in its statement of profit or loss, it may take an annual writing down allowance for tax purposes equal to 4% of the cost of the brand, on a straight line basis. This would be £1,600 (£40,000 x 4%) per year.

If an election is made to claim the 4% writing down allowance, any accounting debits for impairment would be disallowable for tax purposes. Such an election would be irrevocable.

(ii) Relief for the expected loss from the former Starling Partners' trade

As Starling Partners is an unincorporated business, Granada Ltd took over ownership of the assets and responsibility for the trade following its acquisition on 1 January 2016.

The forecast trading loss of £130,000 from Starling Partners' handbag trade could be offset against Granada Ltd's total income for the year ending 31 December 2016, comprising the trading profit from the knitwear business of £100,000 and the chargeable gain of £10,000.

So a loss of £20,000 (£130,000 – £110,000) will be left unrelieved.

As Granada Ltd does not want to carry any of the loss back, the unrelieved loss of £20,000 must be carried forward for relief against the first available future profits from the same trade. This will exclude any future profits from Granada Ltd's knitwear manufacturing business.

Granada Ltd wishes to change the nature of the Starling Partners' trade, by starting to sell to the export market from 1 January 2017. Although this may be seen as a major change in the nature of the trade, it should not serve to prevent the loss incurred in the year ended 31 December 2016 from being carried forward providing HM Revenue and Customs (HMRC) agree that, essentially, the same trade is being carried on. The impact of a major change in the nature or conduct of a trade in restricting loss relief is only relevant where it precedes or follows a change in ownership of a company, not the acquisition of the trade and assets from an unincorporated business.

Accordingly, based on the expected profit, £15,000 of the carried forward loss may be relieved in the year ending 31 December 2017, and the remaining £5,000 will be carried forward for relief in future years.

(c) Value added tax (VAT) implications following the acquisition of the trade and assets of Starling Partners

For VAT purposes, the transfer of Starling Partners' trade and assets qualified as a transfer of a going concern (TOGC). Therefore no VAT will have been charged on the transfer of the assets generally, and so there will have been no input VAT for Granada Ltd to reclaim.

However, additional information is needed in respect of the building, as its treatment will depend on its age and whether or not the option to tax has been exercised.

Age of the building: If the building was less than three years old at 1 January 2016, its sale would have been a taxable supply, chargeable to VAT at the standard rate.

Option to tax: If the building was more than three years old, its sale would have been exempt from VAT, unless Starling Partners exercised the option to tax.

If the building was less than three years old or Starling Partners had opted to tax the building, then the transfer would have been a taxable supply, chargeable to VAT at the standard rate. In either case, to bring the transfer of the building within the TOGC regime, so that no VAT is charged, Granada Ltd must also have opted to tax the building, prior to the date of transfer. Alternatively, if Granada Ltd did not opt to tax the building, but uses the building in its business, it may obtain an input credit for the VAT charged.

5 Amy and Bex

(a) (i) Tax treatment of the interest payable

The interest payable by the partnership on the loan from Bex will be deductible in calculating the taxable trading profit of the business.

As the loan will be made on 1 August 2016, the interest payable in the period ending 30 April 2017 will be £750 (£20,000 x 5% x 9/12).

The interest payable on the loan taken out by Bex to provide the loan to the partnership will qualify for income tax relief as it is a loan for a qualifying purpose. The annual deduction from Bex's total income will be £1,000 (£20,000 x 5%), and the deduction in the tax year 2016/17 will be £667 (£1,000 x 8/12).

The purchase of a computer for use in a partnership is also a qualifying purpose for income tax relief, but the interest payable is only allowable for three years from the end of the tax year in which the loan was taken out, i.e. up to 2019/20. The allowable amount is also restricted where there is private use of the asset by the partner.

Bex will get a deduction against her total income of £133 (£5,000 x 5% x 80% x 8/12) in the tax year 2016/17 and an annual deduction of £200 (£5,000 x 5% x 80%) in each of the tax years 2017/18, 2018/19 and 2019/20.

(ii) Allocation of taxable trading profit

	£
Adjusted profit before loan interest and capital allowances	255,000
Less: loan interest payable (from (a)(i))	(750)
Less: AIA on the computer (£5,000 x 80%)	(4,000)
Taxable trading profit	250,250

Allocation:

	Total £	Amy £	Bex £
16 months ending 30 April 2017			
Salary (£30,000 x 16/12)	40,000	0	40,000
Balance in profit sharing ratio (3:1)	210,250	157,688	52,562
Total share of profit	250,250	157,688	92,562

Tutorial note: *As no other assets will be purchased by the partners in the period ending 30 April 2017, the computer equipment purchased by Bex will qualify for the annual investment allowance (AIA). This will be restricted to reflect her private use of the computer.*

(iii) Bex – taxable trading income

Bex is treated as commencing a new business on 1 January 2016, the date she joined the partnership.

She will be assessed on her £92,562 share of profits for the period ending 30 April 2017 as follows:

2015/16 (1 January 2016 to 5 April 2016)
£92,562 x 3/16 = £17,355

2016/17 (6 April 2016 to 5 April 2017)
£92,562 x 12/16 = £69,422

2017/18 (1 May 2016 to 30 April 2017)
£92,562 x 12/16 = £69,422

(b) Bex – redundancy package from Cape Ltd

The statutory redundancy pay is fully exempt from income tax. However, it reduces the £30,000 exemption available for the *ex-gratia* payment.

The taxable amount of the *ex-gratia* payment is therefore £40,000 (£48,000 – (£30,000 – £22,000)).

Three months' pay in lieu of notice (PILON) is £30,000 (£120,000/4). This is fully taxable as earnings as Bex was contractually entitled to it.

Bex – income tax liability 2015/16

	£
Employment income – salary (£120,000 x 6/12)	60,000
– contractual PILON	30,000
Partnership profit	17,355
Taxable portion of *ex-gratia* payment	40,000
	147,355
Less: personal allowance	0
Taxable income	147,355

Income tax liability:

	£
£31,865 x 20%	6,373
£115,490 x 40%	46,196
£147,355	52,569

Tutorial note: *The contractual payment in lieu of notice is taxable as normal employment income, but the taxable portion of the* ex-gratia *payment is assessed to tax as the top slice of Bex's income.*

				Available	Maximum
1	**(a)**	**(i)**	Income tax payable	1·5	
			Class 4 national insurance contributions payable	1	
			Class 2 national insurance contributions payable	1·5	
			Payments and dates	4	
			Non-withdrawal of profits	4	
				12	11
		(ii)	Information required	4	
			Input tax in respect of the computer	2	
				6	5
	(b)	**(i)**	House in Heliosa		
			Capital gains tax liability	1·5	
			Information required – double tax relief	1	
			Information required – other	1	
			Due date	0·5	
			Rationale re timing of proposed gifts	1	
			Painting	2	
			Shares in Solaris plc		
			Explanations	2	
			Calculations	3·5	
				12·5	10
		(ii)	Explanation	2·5	
			Calculation	3·5	
				6	5
	Problem solving			1	
	Clarity of explanations and calculations			1	
	Effectiveness of communication			1	
	Overall presentation and style			1	
				4	4
	Total				**35**

			Available	Maximum
2	**(a)**	Explanations		
		Chargeable gain on the sale of the Simpson Building	2	
		Post-tax proceeds on the sale of the Simpson Building	1	
		Taxation of dividend from Zephyr Ltd	1	
		Substantial shareholding exemption	2·5	
		Degrouping charge	2	
		No non-errors identified	1	
		Calculation		
		Chargeable gain on the sale of the Simpson Building	1·5	
		Other matters	1·5	
			12·5	11
	(b)	Payment of bonus		
		Taxable income	1·5	
		Income tax liability	1·5	
		National insurance contributions	1·5	
		Reduction in corporation tax	1·5	
		Payment of dividend		
		Calculation	2·5	
		No NIC liability or CT deduction	1	
			9·5	9
	(c)	Necessary to disclose	2·5	
		Implications of failing to disclose	3	
		Consider possibility of further errors	1	
			6·5	5
		Total		**25**
3	**(a)**	Gain on damaged painting	2	
		Gain on shares	2·5	
		After tax proceeds	2	
			6·5	6
	(b)	**(i)** Farmland – Agricultural property relief	2	
		– Business property relief	1	
		Shares – Business property relief	1	
		– Quick succession relief	2·5	
			6·5	6
		(ii) Lifetime gift no longer accumulated	1	
		Calculation of effect	2	
		No effect on quick succession relief	1	
			4	3
	(c)	Yoyo Ltd – fee income less 5% deduction	1	
		Employer's NIC on salary deducted	1·5	
		Employer's NIC on deemed payment	1	
		Taxable income	2·5	
			6	5
		Total		**20**

				Available	Maximum
4	**(a)**	**(i)**	Sale of 2,700 shares	3·5	
			Sale of 3,200 shares	1	
				4·5	4
		(ii)	Sale of 2,700 shares	2·5	
			Sale of 3,200 shares	2	
				4·5	4
	(b)	**(i)**	Entitled to deduction	1	
			Writing down allowance	1	
			Impairment/consistent treatment	1	
				3	3
		(ii)	Current year relief	2	
			Carry forward	1·5	
			Relevance of change in nature of trade	2	
				5·5	5
	(c)		General implications of going concern transfer	1	
			Additional information	4	
				5	4
			Total		**20**
5	**(a)**	**(i)**	Interest payable by the partnership	2	
			Interest payable by Bex	5·5	
				7·5	7
		(ii)	Adjustment to profit	2·5	
			Allocation of profit	2	
				4·5	4
		(iii)	Correct tax years	1	
			Correct basis periods	1	
			Correct calculations	3	
				5	3
	(b)		Taxable redundancy payment	3	
			Calculation of tax	4	
				7	6
			Total		**20**