Professional Level – Options Module

# Advanced Taxation (United Kingdom)

Monday 7 June 2010

Paper P6 (UK)

**Time allowed**
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

**Tax rates and allowances are on pages 2–4**

**Do NOT open this paper until instructed by the supervisor.**
**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**
**This question paper must not be removed from the examination hall.**

**The Association of Chartered Certified Accountants**

ACCA

## SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the tax year 2009/10 and for the financial year to 31 March 2010 will continue to apply for the foreseeable future unless you are instructed otherwise.
2. Calculations and workings need only be made to the nearest £.
3. All apportionments should be made to the nearest month.
4. All workings should be shown.

## TAX RATES AND ALLOWANCES

**The following tax rates and allowances are to be used in answering the questions.**

### Income tax

| | | % |
|---|---|---|
| Basic rate | £1 – £37,400 | 20 |
| Higher rate | £37,401 and above | 40 |

A starting rate of 10% applies to savings income where it falls within the first £2,440 of taxable income.

### Personal allowances

| | | £ |
|---|---|---|
| Personal allowance | Standard | 6,475 |
| | 65 – 74 | 9,490 |
| | 75 and over | 9,640 |
| Income limit for age related allowances | | 22,900 |

### Car benefit percentage

The base level of $CO_2$ emissions is 135 grams per kilometre. A lower rate of 10% applies to petrol cars with $CO_2$ emissions of 120 grams per kilometre or less.

### Car fuel benefit

The base figure for calculating the car fuel benefit is £16,900.

### Pension scheme limits

| | |
|---|---|
| Annual allowance | £245,000 |
| Lifetime allowance | £1,750,000 |
| The maximum contribution that can qualify for tax relief without evidence of earnings | £3,600 |

### Authorised mileage allowances: cars

| | |
|---|---|
| Up to 10,000 miles | 40p |
| Over 10,000 miles | 25p |

## Capital allowances

| | | % |
|---|---|---|
| **Plant and machinery** | | |
| First year allowance | | 40 |
| Writing down allowance | – General pool | 20 |
| | – Special rate pool | 10 |

The first-year allowance of 40% applies to expenditure during the period 6 April 2009 to 5 April 2010 (1 April 2009 to 31 March 2010 for limited companies).

| | |
|---|---|
| **Motor cars** | |
| $CO_2$ emissions up to 110 grams per kilometre | 100 |
| $CO_2$ emissions between 111 and 160 grams per kilometre | 20 |
| $CO_2$ emissions over 160 grams per kilometre | 10 |
| **Annual investment allowance** | |
| First £50,000 of expenditure | 100 |
| **Industrial buildings** | |
| Writing-down allowance | 2 |

## Corporation tax

| Financial year | 2007 | 2008 | 2009 |
|---|---|---|---|
| Small companies rate | 20% | 21% | 21% |
| Full rate | 30% | 28% | 28% |
| | £ | £ | £ |
| Small companies rate lower limit | 300,000 | 300,000 | 300,000 |
| Small companies rate upper limit | 1,500,000 | 1,500,000 | 1,500,000 |
| Marginal relief fraction | 1/40 | 7/400 | 7/400 |

## Marginal Relief

(M – P) x I/P x Marginal relief fraction

## Extended loss relief

Extended loss relief is capped at a maximum of £50,000. For limited companies it applies to loss making accounting periods ending between 24 November 2008 and 23 November 2010.

## Value added tax (VAT)

| | | |
|---|---|---|
| Standard rate | – Up to 31 December 2009 | 15·0% |
| | – From 1 January 2010 onwards | 17·5% |
| Registration limit | | £68,000 |
| Deregistration limit | | £66,000 |

## Inheritance tax

| | % |
|---|---|
| £1 – £325,000 | Nil |
| Excess | 40 |

## Capital gains tax

| | |
|---|---|
| Rate of tax | 18% |
| Annual exemption | £10,100 |
| Entrepreneurs' relief | |
| Lifetime limit | £1,000,000 |
| Relief factor | 4/9ths |

## National insurance contributions (not contracted out rates)

| | | | % |
|---|---|---|---|
| Class 1 | Employee | £1 – £5,715 per year | Nil |
| | | £5,716 – £43,875 per year | 11·0 |
| | | £43,876 and above per year | 1·0 |
| Class 1 | Employer | £1 – £5,715 per year | Nil |
| | | £5,716 and above per year | 12·8 |
| Class 1A | | | 12·8 |
| Class 2 | | Small earnings exception limit – £5,075 | |
| | | £2·40 per week | |
| Class 4 | | £1 – £5,715 per year | Nil |
| | | £5,716 – £43,875 per year | 8·0 |
| | | £43,876 and above per year | 1·0 |

## Rates of interest (assumed)

| | |
|---|---|
| Official rate of interest | 4·75% |
| Rate of interest on underpaid tax | 2·5% |
| Rate of interest on overpaid tax | 0% |

## Stamp duty land tax

| | % |
|---|---|
| £150,000 or less (1) | Nil |
| £150,001 – £250,000 | 1 |
| £250,001 – £500,000 | 3 |
| £500,000 or more | 4 |

(1) For residential property the nil rate band was increased to £175,000 until 31 December 2009 after which it was restricted to £125,000.

## Stamp duty

| | |
|---|---|
| Shares | 0·5% |

**Section A – BOTH questions are compulsory and MUST be attempted**

**1** Extracts from e-mails from your manager and a client, Maya, together with information obtained from client files are set out below.

**Email from your manager**

I have forwarded an e-mail to you from Maya who owns The Cacao Ltd group of companies. Maya is a scientist and relies on us for all of her tax advice.

Please write a memorandum addressing the matters raised by Maya whilst taking into account the following instructions and additional information.

**(i) The corporation tax liability for the year ending 30 September 2011**

Last week, Maya and I prepared a budget for the group for the year ending 30 September 2011 and arrived at the figures set out below for the three subsidiaries.

| | Ganache Ltd | Truffle Ltd | Fondant Ltd |
|---|---|---|---|
| | £ | £ | £ |
| Taxable trading profit | 45,000 | 168,000 | 55,000 |
| Chargeable gain (does not qualify for rollover relief) | – | 42,000 | – |

These figures do not take into account the additional expenditure identified by Maya as set out in her e-mail below or the capital allowances available in respect of any capital expenditure in the year.

When calculating the total corporation tax liability of the three subsidiaries as requested by Maya I want you to:

– calculate the corporation tax liabilities based on the above figures on the assumption that the purchase of Praline Inc, as described in Maya's e-mail, will take place as planned;
– explain, with supporting calculations, the potential effects of the additional expenditure identified by Maya on the total of the liabilities you have calculated.

When preparing these calculations you should take advantage of any opportunities available to reduce the total corporation tax liability of the companies. We do not have sufficient information regarding the financial position of Cacao Ltd at present so you should ignore any effect of that company's results on the tax position of the subsidiaries.

**(ii) Praline Inc**

It is possible that Praline Inc will be a controlled foreign company. Accordingly, in addition to addressing Maya's point about the interest, the memorandum should include the following:

– a detailed analysis of the information we have and any further information we require in order to determine whether or not Praline Inc will be a controlled foreign company when it is purchased by Cacao Ltd or could become one at some time in the future;
– the implications of Praline Inc being a controlled foreign company;
– a summary of your findings so that Maya will understand the likely ways in which Praline Inc's profits will be taxed.

You should assume that Praline Inc will retain its profits in the country of Noka and will not pay any dividends to Cacao Ltd.

**(iii) Fondant Ltd**

You will need to include a brief outline of the capital goods scheme in order to address Maya's query. I would also like you to draw her attention to the partial exemption percentage used by Fondant Ltd when preparing its VAT returns. It may be advantageous for the company to use the partial exemption percentage for the previous year rather than calculating it for each particular quarter as it appears to be doing at the moment.

**Tax manager**

E-mail from Maya

**The corporation tax liability for the year ending 30 September 2011**

Following on from our discussion of the subsidiaries' budgeted profits for the year ending 30 September 2011, I have now identified some additional expenditure. Ganache Ltd will spend up to £11,000 on hiring temporary staff to carry out scientific research in connection with its business activities.

In addition, I have finalised the capital expenditure budget. Truffle Ltd and Ganache Ltd will purchase manufacturing equipment at a cost of £43,000 and £28,000 respectively.

Most of this additional expenditure will need to be borrowed. Please let me know the budgeted total corporation tax liability for the three subsidiaries, after taking account of the proposed expenditure, so that I can estimate the group's total borrowing requirements.

**Praline Inc**

I am hopeful that Cacao Ltd will be able to purchase the whole of the share capital of Praline Inc, probably towards the end of 2010. Praline Inc is incorporated in the country of Noka. The company's main source of income is the receipt of royalties in respect of various licences and patents. The great thing is that the rate of corporation tax in the country of Noka is only 12%. At the moment Praline Inc's annual profit is in the region of £36,000 but I intend to transfer additional intellectual property to it in the future in order to take advantage of the low rate of tax.

I have not agreed a price for Praline Inc yet. However, I am conscious that the necessary funds will be borrowed by Cacao Ltd resulting in costs in that company in respect of arrangement fees and interest. Bearing in mind that Cacao Ltd's taxable profits are very small, does that mean that these costs will not give rise to a tax deduction?

**Fondant Ltd**

As you know, Fondant Ltd rents the premises from which it runs all of its activities. It has recently been offered the chance to buy the building (for a price likely to be in the region of £450,000) rather than renewing the lease. In the quarter ended 31 March 2010 the company was only able to recover 62% of the VAT charged on the rent and I expect this percentage to fall over the next year or two. I wondered if the irrecoverable VAT problem could be solved if Fondant Ltd were to purchase the building.

Regards

Maya

**Extracts from the client files for the Cacao Ltd group of companies.**

| | Cacao Ltd | Ganache Ltd | Truffle Ltd | Fondant Ltd |
|---|---|---|---|---|
| Shareholders | Maya (100%) | Cacao Ltd (100%) | Cacao Ltd (100%) | Cacao Ltd (100%) |
| Residency | UK | UK | UK | UK |
| Trading company? | Yes | Yes | Yes | Yes |
| As at 1 October 2009: | | | | |
| Trading loss brought forward | – | – | – | – |
| Capital loss brought forward | – | – | – | £23,000 |
| VAT partially exempt? | No | No | No | Yes |

Notes
1. The subsidiaries have always been owned by Cacao Ltd.
2. The group is small for the purposes of research and development expenditure.

**Required:**

**Prepare the memorandum requested in the email from your manager. The following marks are available.**

**(i) The corporation tax liability for the year ending 30 September 2011;** (11 marks)

**(ii) Praline Inc;** (12 marks)

**(iii) Fondant Ltd.** (6 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format and presentation of the memorandum and the effectiveness with which the information is communicated. (2 marks)

**(31 marks)**

**This is a blank page.**
**Question 2 begins on page 9.**

**2** Your manager has had a meeting with Poblano. Poblano is the Finance Director of Capsicum Ltd, a subsidiary of Scoville plc. He is a higher rate taxpayer earning in excess of £70,000 per year. Scoville plc together with its subsidiaries and its directors have been clients of your firm for many years. The memorandum recording the matters discussed at the meeting and an extract from an email from your manager detailing the tasks for you to perform are set out below.

**Memorandum recording matters discussed at meeting with Poblano**

| | |
|---|---|
| To | The files |
| From | Tax manager |
| Date | 4 June 2010 |
| Subject | Poblano |

I had a meeting with Poblano on 3 June 2010.

**(i) Working in Manchester**

Poblano currently lives and works in Birmingham. However, Capsicum Ltd has recently acquired the Manchester operations of the group from a fellow subsidiary of Scoville plc. As a result of this, Poblano is going to be based in Manchester from 1 August 2010 for a period of at least five years. He will be paid an additional £15,000 per year during this period.

Poblano does not want to relocate his family to Manchester for personal reasons. He has been offered the use of a furnished flat in Manchester belonging to Capsicum Ltd to live in during the week. He will drive home each weekend. Details of the company's flat are set out below.

| | £ |
|---|---|
| Current market value | 490,000 |
| Purchase price (1 June 2007) | 350,000 |
| Annual value | 8,500 |
| Monthly contribution required from Poblano | 200 |

Alternatively, if he does not live in the flat, Capsicum Ltd will pay him a mileage allowance of 50 pence per mile to cover the cost of travelling to Manchester every Monday and returning home every Friday. During the week, whilst he is in Manchester, Poblano will stay with his aunt, paying her rent of £325 per month.

Poblano estimates that he will drive 9,200 miles per year travelling to Manchester each week and that he will spend £1,400 per year on petrol. There would also be additional depreciation in respect of his car of approximately £1,500 per year. Capsicum Ltd has a policy of not providing its employees with company cars.

Poblano expects to be better off due to the increase in his salary. He wants to know how much better off he will be depending on whether he lives in the company flat or receives the mileage allowance and stays with his aunt.

**(ii) Financial accounting problems in Manchester**

Poblano is aware that the Finance Act 2009 introduced new rules affecting senior accounting officers. He asked me for a brief summary of the rules and whether or not they could apply to him in the future.

Poblano's interest in the new rules has been prompted by the review he has performed on the results of the Manchester operation for the year ended 30 September 2009. During that review Poblano identified a number of expenditure classification errors including capital expenditure in respect of improvements to the factory roof that had been classified as plant and machinery in the corporation tax return submitted to HM Revenue and Customs.

**(iii) Father's property in the country of Chilaca**

Paprikash (Poblano's father) owns a property in the country of Chilaca that he uses for holidays. It has always been intended that the property would be left to Poblano in his father's will. However, Paprikash has recently agreed to give the property to Poblano now, if to do so would make sense from a tax point of view. Paprikash may still wish to use the property occasionally in the future.

The property is currently worth £600,000. However, due to the economic situation in the country of Chilaca, it is possible that this figure could either rise or fall over the next few years.

Paprikash is domiciled in the UK. He is in poor health and is not expected to live for more than a further five years. His total assets, including the property in the country of Chilaca, are worth £2 million. Paprikash makes gifts on 1 May each year in order to use his annual exemption. His only other gift in the last seven years was to a trust on 1 June 2009. The gift consisted of a number of minority holdings of quoted shares valued at £290,000 in total. The trust is for the benefit of Poblano's daughter, Piri. It can be assumed that Paprikash will not make any further lifetime gifts.

There is no capital gains tax or inheritance tax in the country of Chilaca.

**(iv) Trust created for the benefit of Poblano's daughter**

The trust was created on 1 June 2009 as noted above. Poblano's daughter, Piri, received income from the trust for the first time in March 2010. Poblano did not have any further information on the trust and agreed to bring the relevant documentation to our next meeting. Piri's only other income is an annual salary of approximately £35,000.

**Tax manager**

**E-mail from your manager**

I want you to prepare notes for a meeting that we will both attend with Poblano. You will be leading the meeting. Set out the information so that it is easy for you to find what you need as we go through the various issues. Include the briefest possible notes where the numbers are not self-explanatory.

The meeting notes need to include:

**(i) Working in Manchester**

– Calculations showing how much better (or worse) off Poblano will be under each of the alternatives as compared to his current position. If he is worse off under either of the alternatives, include a calculation of the amount of salary he would have to be paid, in addition to the £15,000, so that he is not out of pocket.
– An explanation of the tax treatment for the recipients of the mileage allowance to be paid to Poblano and the rent to be paid to his aunt.
– Any further information required and the effect it could have on the calculations you have prepared.

**(ii) Financial accounting problems in Manchester**

– The information requested by Poblano.
– The further action required by the company and, potentially, ourselves in respect of the classification errors.

**(iii) Father's property in the country of Chilaca**

– Calculations of the inheritance tax liability that will become due in respect of the property in the country of Chilaca depending on whether the property is gifted to Poblano on 1 August 2010 or via his father's will. You should assume the following:
  – His father, Paprikash, will die on either 31 December 2012 or 31 December 2014.
  – The property will be worth £600,000 on 1 August 2010.
  – Three possible values of the property at the date of Paprikash's death: £450,000, £600,000 and £900,000.

  You should calculate the inheritance tax for each of the 12 possible situations on the property only, assuming that Paprikash does not use the property after the date of the gift. You should start by calculating the tax on a lifetime gift with Paprikash's death on 31 December 2012. If you then think about the relationships between the different situations you should find that the calculations do not take too long. In order for the calculations to be comparable, when calculating the tax on the gift via Paprikash's will, you should assume that any available nil band is deductible from the property.
– Conclusions drawn from the calculations.
– Any other issues that we should draw to Poblano's attention.

| (iv) Trust created for the benefit of Poblano's daughter |
|---|
| – A summary of the tax treatment of the income received by Poblano's daughter Piri, as beneficiary, depending on the nature of the trust. I understand from Poblano that the only income of the trust is dividend income. |

**Required:**

**Prepare the meeting notes requested in the email from your manager. The following marks are available.**

**(i) Working in Manchester;** (10 marks)

**(ii) Financial accounting problems in Manchester;** (7 marks)

**(iii) Father's property in the country of Chilaca;** (12 marks)

**(iv) Trust created for the benefit of Poblano's daughter.** (6 marks)

Professional marks will be awarded in question 2 for the appropriateness of the format and presentation of the notes and the effectiveness with which the information is communicated. (2 marks)

**(37 marks)**

**Section B – TWO questions ONLY to be attempted**

**3** Desiree requires advice on whether she should run her new business as an unincorporated sole trader or via a company together with the financial implications of registering voluntarily for value added tax (VAT).

The following information has been obtained from a meeting with Desiree.

Desiree:

– Resigned from her job with Chip plc on 31 May 2010.
– Had been employed by Chip plc on an annual salary of £60,000 since January 2007.
– Has no other income apart from bank interest received of less than £1,000 per year.
– Intends to start a new business, to be called Duchess, on 1 September 2010.

The Duchess business:

– The business will sell kitchen equipment and utensils.
– Market research consultants have estimated that 80% of its sales will be to commercial customers.
– The consultants were paid fees in November 2009 and March 2010.

Budgeted results of the Duchess business:

– The budgeted tax-adjusted trading profit/(loss) for the first three trading periods are:

| | £ |
|---|---|
| Ten months ending 30 June 2011 | (46,000) |
| Year ending 30 June 2012 | 22,000 |
| Year ending 30 June 2013 | 64,000 |

– The fees paid to the market research consultants have been deducted in arriving at the loss of the first period.

Desiree's financial position:

– Desiree has not yet decided whether to run the business as an unincorporated sole trader or via a company.
– Her primary objective when deciding whether or not to operate the business via a company is the most beneficial use of the loss.

Registration for VAT:

– The turnover of the business is expected to exceed the VAT registration limit in January 2011.
– Desiree would consider registering for VAT earlier if it were financially advantageous to do so.

**Required:**

**(a) (i) Calculate the taxable trading profit or allowable trading loss of the business for each of the first three taxable periods for the following alternative structures:**

**– the business is unincorporated;**
**– the business is operated via a company.** (4 marks)

**(ii) Provide Desiree with a thorough and detailed explanation of the manner in which the budgeted trading loss could be used depending on whether she runs the business as an unincorporated sole trader or via a company and state which business structure would best satisfy her primary objective.**

Note: you are not required to prepare detailed calculations for part (ii) of this part of this question or to consider non-taxation issues. (8 marks)

**(b) Explain in detail the financial advantages and disadvantages of Desiree registering voluntarily for VAT on 1 September 2010.** (4 marks)

**(16 marks)**

**4** Dokham requires advice on his pension position at retirement, the rules relating to enterprise management incentive (EMI) schemes and the tax implications of his mother helping to pay his children's school fees.

The following information has been obtained from a telephone conversation with Dokham.

**Dokham:**
- Is 39 years old and married with two children.
- Is domiciled, resident and ordinarily resident in the UK.
- Has been offered a job by Criollo plc.
- His mother, Virginia, has offered to contribute towards Dokham's children's school fees.

**The job offer from Criollo plc:**
- Dokham's salary will be £70,000 per year.
- Criollo plc will make annual contributions of £8,000 into Dokham's personal pension scheme.
- Criollo plc will invite Dokham to join the company's EMI scheme.

**Dokham's pension arrangements:**
- Dokham has not made any pension contributions to date.
- Dokham intends to make gross annual contributions of £11,000 into a registered personal pension scheme.

**The EMI scheme:**
- The scheme will have five members including Dokham.
- Criollo plc will grant Dokham an option to purchase 12,540 shares at a price of £9·00 per share. This will represent a holding of less than 1% of the company.
- The option can be exercised at any time until 31 December 2015.
- Criollo plc's current share price is £9·53.

**Dokham has requested explanations of the following in respect of the job offer from Criollo plc:**
- What would be the difference for me, from a tax point of view, if Criollo plc increased my salary by £8,000 instead of contributing into my personal pension scheme and I made additional gross annual pension contributions of £8,000?
- What benefits will I receive from the pension scheme, how will they be taxed and when can I receive them?
- Why might Criollo plc have told me that it is 'not possible' to increase the number of shares I can purchase within the EMI scheme?
- What are the tax implications for me when I exercise my EMI share option and when I sell the shares?

**Virginia:**
- Is 68 years old.
- Is domiciled, resident and ordinarily resident in the UK.
- Has taxable income of more than £120,000 per year.
- Owns a portfolio of quoted shares that is worth more than £500,000.
- Uses her capital gains tax and inheritance tax annual exemptions every year.
- Is considering three alternative ways of contributing towards Dokham's children's school fees.

**The three alternative ways of contributing towards the children's school fees:**
- Make a one-off gift to Dokham of £54,000 in cash.
- Make a one-off gift to Dokham of 9,800 shares (a holding of less than 1%) in Panatella plc, a quoted company, worth £54,000.
- Make a gift to Dokham of £8,000 in cash every year for the next seven years.

**Required:**

**(a) Provide the information requested by Dokham in respect of the job offer from Criollo plc as set out above.** (9 marks)

**(b) Explain in detail the possible tax liabilities that could result from the three alternative ways proposed by Virginia to contribute towards the children's school fees.** (7 marks)

**(16 marks)**

**5** Vine requires advice on capital allowances, the incorporation of his business together with a subsequent sale of some of his shares, and the tax implications of measures intended to encourage his employees to become involved in a marketing strategy.

The following information has been obtained from a meeting with Vine.

**Vine:**

– Is 38 years old.
– Purchased a supermarket and began trading on 1 January 2010.
– Will make no capital disposals other than those referred to below.
– Has capital losses brought forward at 6 April 2010 of £7,400.

**Vine's plans:**

– Vine intends to incorporate the supermarket business, as detailed below, for commercial reasons.
– In June or July 2011 Vine intends to sell 20% of the new company to his store manager for £64,000.
– Vine is developing a marketing strategy called 'the active supermarket'.
– In October 2010 a false ceiling will be installed in the supermarket premises in order to conceal electrical wiring and water pipes.

**The incorporation of Vine's business:**

– All of the assets and liabilities of the business will be transferred to a new company, Passata Ltd, on 31 July 2010.
– Passata Ltd will be wholly owned by Vine.
– The consideration paid by Passata Ltd will be:
  – the maximum amount of cash that can be paid without giving rise to a capital gains tax liability; and
  – the issue of 1,200 £1 ordinary shares to Vine in respect of the remainder of the value of the business.
– The cash will be left on a loan account payable to Vine.

**The assets and liabilities to be transferred to Passata Ltd:**

| | Cost | Value | Tax written down value on 31 July 2010 |
|---|---|---|---|
| | £ | £ | £ |
| Premises | 205,000 | 260,000 | – |
| Equipment | 55,000 | 35,000 | 22,000 |
| Trading stock | | 11,000 | – |
| Liabilities | | (10,000) | – |
| Goodwill | Nil | 24,000 | – |
| | | 320,000 | |

– All of the equipment qualifies for capital allowances and no item is valued at more than cost.

**The active supermarket:**

– Passata Ltd will purchase six bicycles for a total of £2,400.
– The bicycles will be made available on loan to all employees for travelling to and from work and for making deliveries to customers.
– Employees will be paid 15 pence per mile if they use their own bicycles to make deliveries to customers.
– On the first Monday of each month employees who cycle to work will receive a free breakfast.
– Each breakfast will cost Passata Ltd £8.

**Required:**

**(a) Explain:**

**(i) the capital allowances implications for Vine of the transfer of the equipment to Passata Ltd; and**
**(ii) whether or not the false ceiling to be installed in the supermarket premises will qualify as plant and machinery for the purposes of capital allowances.** (4 marks)

**(b) Calculate the chargeable gain arising on the proposed sale of the shares to the store manager and suggest a minor change in relation to the sale that would reduce the chargeable gain.** (8 marks)

**(c) Outline the tax implications for Passata Ltd and its employees of the active supermarket marketing strategy.** (4 marks)

**N**ote: you should ignore value added tax (VAT) when answering this question.

**(16 marks)**

**End of Question Paper**