# Answers

**1** Pippin

Memorandum

| | |
|---|---|
| Client | Pippin |
| Subject | Pinova business |
| Prepared by | Tax senior |
| Date | 8 June 2017 |

**(i) Additional funds required for the 20-month period from 1 August 2017 to 31 March 2019**

| | Strategy A | Strategy B |
|---|---|---|
| | £ | £ |
| Total pre-tax cash receipts for the 20-month period | 61,000 | 109,500 |
| Cost of employing the two employees: | | |
| (£48,000 + £3,000 + £1,426) | nil | (52,426) |
| Total income tax and national insurance contribution liabilities | | |
| for the tax years 2017/18 and 2018/19 | | |
| (£0 + £16,831) | (16,831) | |
| (£24,212 – £7,560) | | (16,652) |
| | 44,169 | 40,422 |
| Personal expenditure | (80,000) | (80,000) |
| Additional funds required | 35,831 | 39,578 |

**Strategy A**

**2017/18**

| | £ |
|---|---|
| Budgeted profit | 13,000 |
| *Less:* Capital allowances 100% AIA | (8,000) |
| Tax adjusted trading profit | 5,000 |
| | |
| Income tax: | |
| Covered by the personal allowance | 0 |
| Class 4 national insurance contributions (NIC): | |
| Below the lower profits limit | 0 |
| Class 2 NIC: | |
| Below the small profits threshold | 0 |
| Total tax and NIC | 0 |

**Tutorial note:** *Non-payment of class 2 NIC can affect the availability of state benefits, including the state pension. Accordingly, it may be advisable for Pippin to pay the class 2 NIC contributions even if his profit is below the small profits threshold.*

**2018/19**

| | £ | £ |
|---|---|---|
| Tax adjusted trading profit | | 60,000 |
| Dividend income | | 1,500 |
| *Less:* Personal allowance | | (11,000) |
| Taxable income | | 50,500 |
| | | |
| Income tax: | | |
| Trading income | | |
| £32,000 x 20% | 6,400 | |
| £17,000 x 40% | 6,800 | |
| | | 13,200 |
| Dividend income – nil rate band | | 0 |
| Class 4 NIC | | |
| (£43,000 – £8,060) x 9% | 3,145 | |
| (£60,000 – £43,000) x 2% | 340 | |
| | | 3,485 |
| Class 2 NIC | | |
| (£2·80 x 52) | | 146 |
| Total tax and NIC | | 16,831 |

**Strategy B**

**2017/18**

| | £ |
|---|---|
| Budgeted loss | (10,000) |
| *Less:* Capital allowances 100% AIA | (8,000) |
| Tax adjusted trading loss | (18,000) |

Claiming opening years loss relief will result in a repayment of income tax and class 4 NIC of £7,560 (£18,000 x 42%) in respect of 2014/15.

**2018/19**

| | £ | £ |
|---|---|---|
| Budgeted profit | | 130,000 |
| *Less:* Cost of employees | | |
| Salaries (£2,000 x 12 x 2) | | (48,000) |
| Mileage allowance (£0·50 x 250 x 12 x 2) | | (3,000) |
| Class 1 NIC: | | |
| Salary (£2,000 x 12) | 24,000 | |
| Mileage payments ((£0·50 – £0·45) x 250 x 12) | 150 | |
| | 24,150 | |
| (£24,150 – £8,112) x 13·8% x 2 | 4,426 | |
| *Less:* Employment allowance | (3,000) | |
| | | (1,426) |
| Tax adjusted trading profit | | 77,574 |
| | | |
| Income tax and NIC on profit of £60,000 (per strategy A) | | 16,831 |
| Income tax and class 4 NIC on excess over £60,000 | | |
| (£77,574 – £60,000) x 42% | | 7,381 |
| Total tax and NIC | | 24,212 |

**Evaluation of the two strategies**

Strategy A requires less additional funding than strategy B over the 20-month period.

However, the annual profit under strategy A will only be £60,000. This will not be sufficient to generate the £48,000 (£4,000 x 12) of post-tax cash receipts required by Pippin.

The post-tax profit under Strategy B will be £53,362 (£130,000 – £52,426 – £24,212), such that there may be sufficient post-tax cash receipts for Pippin's needs.

**(ii) Receipt of £75,000**

The tax implications for Pippin depend on whether the £75,000 was a direct gift from Esme or the result of Esme having made a tax-effective deed of variation of her father's will.

**Gift from Esme**

The gift would have been a potentially exempt transfer. Esme's death within seven years of the gift would result in an inheritance tax liability for Pippin as follows:

| | £ |
|---|---|
| Transfer | 75,000 |
| Inheritance tax at 40% (note) | 30,000 |
| Taper relief (5 to 6 years) (£30,000 x 60%) | (18,000) |
| | 12,000 |

**Note:** Esme's annual exemptions and her nil rate band were used by the gift on 1 November 2011.

**Deed of variation**

A deed of variation whereby £75,000 of Esme's inheritance was transferred to Pippin would not be treated as a gift from Esme to Pippin. Instead, the money would be regarded as having passed to Pippin via his grandfather's will. Accordingly, in these circumstances, there would be no inheritance tax implications for Pippin as a result of the death of Esme.

**(iii) Sale of shares in Akero Ltd**

**Capital gains tax**

**Chargeable gain on the sale of the shares**

Pippin will realise a chargeable gain of £17,500 ((£4·50 – £1) x 5,000) if the shares are sold prior to 4 January 2018 at their current market value.

However, if the shares are sold on or after 4 January 2018, the chargeable gain arising on the sale will be exempt.

**Chargeable gain deferred in respect of the painting**

Regardless of when the shares are sold, the chargeable gain which was deferred on their acquisition will become chargeable. The chargeable gain deferred was £16,000, or £1 per share, such that, on the sale of 5,000 shares, a gain of £5,000 will become chargeable.

**Capital gains tax liability**

Any chargeable gains realised by Pippin in the tax year 2017/18 will be reduced by his annual exempt amount of £11,100. Any gains not covered by the annual exempt amount will be taxed at 10%, as Pippin has no taxable income.

**Income tax**

If the shares are sold prior to 4 January 2018 at their current market value, there will be a withdrawal of £1,500 (5,000 x £1 x £0·30) of the income tax relief originally obtained by Pippin. This is because the shares will have been sold for more than their cost.

## 2 Heyer Ltd group

**(a) Group planning**

**Requirement to pay corporation tax by instalments**

In respect of the year ending 31 December 2017, a company in the Heyer Ltd group will be required to pay corporation tax in instalments if its taxable total profits (TTP) exceed £83,333 (£1,500,000/18) and either:

– it had TTP of more than £83,333 in the year ended 31 December 2016; or
– its TTP for the year ended 31 December 2017 are more than £555,556 (£10,000,000/18).

**Tutorial note:** *Companies which have a corporation tax liability of less than £10,000, are not required to pay tax in instalments. This point is not referred to in the answer as none of the companies falls within this definition.*

**The Heyer Ltd capital gains group**

The Heyer Ltd capital gains group consists of Heyer Ltd, its 75% subsidiaries and their 75% subsidiaries. In addition, Heyer Ltd must have an effective interest of more than 50% in any company which it does not own directly.

Accordingly, all of the group companies are in a single capital gains group with the exception of Orin Hod Ltd.

**Amount of chargeable gains and capital losses to transfer between group companies**

You should aim to:

1. Reduce the TTP of as many companies as possible to £83,333, such that they are no longer required to pay corporation tax in instalments.
2. Reduce the TTP of those companies which are still required to pay corporation tax in instalments, as this will reduce the amount of each instalment.
3. The whole or part of any current period chargeable gain and/or capital loss can be transferred between companies in a capital gains group.
   - Gains and losses should be transferred in order to match them against each other.
   - Gains should be transferred from a company which has TTP in excess of the £83,333 threshold to a company which has TTP below the threshold.

**Relevance of the specific information**

**Mantet Ltd**

Mantet Ltd had TTP for the year ended 31 December 2016 of less than £83,333. Accordingly, it will not be required to pay its corporation tax liability for the year ended 31 December 2017 in instalments unless its TTP for that year are more than £555,556. With this in mind, chargeable gains should be transferred to Mantet Ltd from other companies in the Heyer Ltd capital gains group provided its TTP are kept below £555,556.

**Newell Rap Ltd**

Newell Rap Ltd's capital losses are pre-entry capital losses because they were realised before Newell Rap Ltd was acquired by Heyer Ltd. These losses cannot be used to relieve gains on assets realised by other members of the Heyer Ltd capital gains group.

**Orin Hod Ltd**

Orin Hod Ltd's TTP exceed £83,333. However, it is not a member of the Heyer Ltd capital gains group because it is not a 75% subsidiary of Heyer Ltd. Accordingly, it is not possible to reduce its TTP by, for example, transferring its chargeable gains to other companies.

**Other 100% owned companies**

All of these companies are required to pay corporation tax in instalments.

Current period chargeable gains and capital losses realised by these companies should be transferred to other companies in the Heyer Ltd capital gains group in accordance with the guidance set out above.

**(b) Group restructuring**

**Chargeable gains**

Chargeable assets, including the business premises, will be transferred at no gain, no loss automatically, because all of the companies are 75% subsidiaries of Heyer Ltd. Accordingly, no chargeable gains will arise.

**Stamp duty land tax (SDLT)**

No SDLT will be due in respect of the sale of the business premises because Heyer Ltd owns at least 75% of the ordinary share capital of all of the companies.

**Capital allowances**

Machinery and equipment will be automatically transferred at tax written down value, rather than market value, because Heyer Ltd controls at least 75% of each of the companies. Accordingly, no balancing charges will arise.

**Capital losses**

The unused capital losses of Newell Rap Ltd, and any other company whose trade and assets will be transferred, will not be transferred to Lodi Ltd, but current period capital losses can be transferred to companies in the same capital gains group, as set out above.

**(c) Pink Time Ltd**

The taxable supplies of Pink Time Ltd will exceed the registration threshold of £83,000 by the end of November 2017 (£35,000 x 3 = £105,000). However, the company may apply to be exempt from registration because it only makes zero rated supplies.

It would be beneficial for Pink Time Ltd to register for value added tax (VAT) because it would then be able to recover its input tax. The fact that its customers are members of the public is irrelevant because Pink Time Ltd makes zero rated supplies and therefore will not be charging any VAT.

Pink Time Ltd would be in a VAT repayment position if it were to register for VAT because it only makes zero rated supplies. It could improve its cash flow position by making its VAT returns monthly rather than quarterly.

**(d) Disclosure of transfer pricing**

It is more than 12 months since the return filing date, and therefore too late to amend the corporation tax returns. Accordingly, this information must be disclosed to HM Revenue and Customs (HMRC). We should encourage Heyer Ltd to make this disclosure.

The management of the Heyer Ltd group can inform HMRC or may authorise us to do so. However, we must not disclose the error to HMRC without permission.

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

We should notify the group of the following consequences of not providing this information to HMRC:

- If they refuse to disclose the error, we will advise HMRC that we no longer act for them. 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.

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

We should ascertain how the non-disclosure occurred in order to determine whether or not there may be other matters which have been omitted from the group companies' corporation tax returns.

**3 Noah and Dan**

**(a) (i) Inheritance tax treatment of the house located in Skarta**

An individual who is not domiciled or deemed domiciled in the UK is liable to UK inheritance tax only in respect of assets located in the UK.

An individual is deemed domiciled in the UK if they have been resident in the UK for 17 out of the 20 tax years ending with the tax year in which the transfer is made, and accordingly are liable to UK inheritance tax on their worldwide assets.

Noah became resident in the UK on 1 April 1998, so by the time of his death on 31 May 2017, Noah had been resident in the UK for 19 tax years, so would be deemed domiciled in the UK for inheritance tax purposes. Therefore the house located in Skarta will be included in his chargeable death estate.

**(ii) Value of Dan's inheritance**

**Noah – death estate**

| | £ |
|---|---|
| UK assets | 335,000 |
| House in Skarta (W1) | 229,900 |
| Chargeable estate | 564,900 |
| Nil rate band available on death | (325,000) |
| Taxable estate | 239,900 |
| IHT (£239,900 x 40%) | 95,960 |
| *Less:* Double tax relief – the lower of: | |
| Overseas tax suffered £56,080 | |
| UK IHT on the house (£229,900 x 95,960/564,900) | (39,053) |
| IHT payable | 56,907 |

**Value of Dan's inheritance after all taxes and liabilities**

| | £ |
|---|---|
| Value of assets in the estate (£335,000 + £242,000) | 577,000 |
| *Less:* Legal and administration fees in Skarta | (12,400) |
| IHT suffered (£56,080 + £56,907) | (112,987) |
| Value of inheritance | 451,613 |

**Working 1: House in Skarta**

| | £ |
|---|---|
| Value of the house at 31 May 2017 | 242,000 |
| *Less:* Legal and administration fees – the lower of: | |
| The fees incurred £12,400 | |
| Maximum £12,100 (5% x £242,000) | (12,100) |
| Value to include in the estate | 229,900 |

**(b) (i) Reasons why Dan will be classed as non-UK resident in the tax year 2017/18.**

As Dan does not satisfy the criteria under either of the automatic tests for determining his UK residence status, the 'sufficient ties' tests must be considered. These take into account the number of days spent in the UK and the number of 'ties' Dan has to the UK.

As Dan has previously been resident in the UK in at least one of the previous three tax years, and will spend between 46 and 90 days in the UK during 2017/18 (15 May to 5 August 2017), he would be considered to be UK resident in this tax year if he has at least three UK ties.

Dan will satisfy only one tie:

– He spent more than 90 days in the UK in the tax year 2015/16, as he did not leave the UK until 1 January 2016.

Dan will not satisfy the remaining four ties:

– He does not have any close family residing in the UK.
– He will not have an accommodation tie in 2017/18 because he will not have spent at least one night in his UK property in 2017/18.
– He will not be present in the UK for the same number or more days in 2017/18 than in any other country.
– He will not have substantive work in the UK in 2017/18.

Accordingly, Dan will be classed as non-UK resident in 2017/18.

**Tutorial notes:**

1. *A parent (Noah) does not fall within the definition of close family for this purpose.*
2. *Although Dan will have owned his house in the UK up to the date of its sale on 1 August 2017 (i.e. for more than 91 days in 2017/18), he will not have spent at least one night there during 2017/18.*
3. *As Dan is planning to move permanently to Skarta on 5 August 2017, he will not be present in the UK for more days in 2017/18 than in any other country.*
4. *Dan will be working for 31 days in July 2017, which is insufficient to be regarded as 'substantive' (40 days or more).*

**(ii) Dan – capital gains tax liability on disposal of his UK house**

**Default method – gain arising after 5 April 2015**

| | £ |
|---|---|
| Proceeds | 318,000 |
| *Less:* Market value at 5 April 2015 | (297,000) |
| Gain | 21,000 |

**Straight line time apportionment method (on election)**

| | £ |
|---|---|
| Proceeds | 318,000 |
| *Less:* Cost | (286,000) |
| Gain | 32,000 |

Dan will have owned the house from 1 October 2012 to 1 August 2017, i.e. 58 months.

The period from 6 April 2015 to 1 August 2017 is 28 months.

The post-6 April 2015 gain is £15,448 (£32,000 x 28/58).

Dan should therefore elect to use the straight line time apportionment method as this produces a lower gain.

| | £ |
|---|---|
| Gain before principal private residence (PPR) exemption | 15,448 |
| *Less:* PPR exemption (W) £15,448 x 27/28 | (14,896) |
| Chargeable gain | 552 |

Working: PPR exemption

| | Total months | Exempt months | Chargeable months |
|---|---|---|---|
| Tax year | | | |
| 2015/16 – UK resident | | | |
| – actual occupation 6 April to 31 December 2015 | 9 | 9 | – |
| – unoccupied 1 January to 31 January 2016 | 1 | – | 1 |
| – last 18 months 1 February to 5 April 2016 | 2 | 2 | – |
| 2016/17 – non-UK resident last 18 months | 12 | 12 | – |
| 2017/18 – non-UK resident last 18 months | 4 | 4 | |
| | 28 | 27 | 1 |

**Tutorial note:** *There is no need to consider whether or not Dan qualifies for the PPR exemption in 2016/17 or 2017/18 because the period of ownership of the property in these two tax years is within the final 18 months of ownership.*

## 4 Traiste Ltd

### (a) Redundancy package provided to Esta

**(i)** The statutory redundancy pay is exempt from income tax as it is within the £30,000 exemption available for termination payments.

To the extent that the *ex-gratia* payment exceeds the remainder of the £30,000 exemption, the excess will be charged to income tax at Esta's highest marginal rate of income tax.

The continuing use of the company car will be valued according to the normal rules for calculating the cash equivalent of this taxable benefit. It will be wholly taxable as the £30,000 exemption is initially allocated, and has already been applied, to the cash receipts.

**(ii)** The amount deductible by Traiste Ltd in respect of the redundancy package for Esta is as follows:

| | £ |
|---|---|
| Statutory redundancy | 12,000 |
| *Ex-gratia* payment | 36,000 |
| Lease payments: ((£420 x 6) x 85%) | 2,142 |
| | 50,142 |

**Tutorial note:** *No Class 1 or Class 1A national insurance contributions are due in respect of any part of the package.*

### (b) Kat – proposed sale of shares

**To Jordi**

On the sale of the shares to Jordi, a chargeable gain will arise, calculated by reference to the market value of the shares as Kat and Jordi are connected persons. A chargeable gain of £25,500 (500 x (£52 – £1) will therefore arise on the disposal.

As Kat has held more than 5% of the shares in Traiste Ltd for more than 12 months, and works for the company, entrepreneurs' relief applies.

As Kat has already used her annual exempt amount for 2017/18, there will be a capital gains tax liability of £2,550 (£25,500 x 10%).

Kat's after-tax proceeds will be £20,950 ((500 x £47) – £2,550).

**To Traiste Ltd**

As Kat wishes to sell her shares before the end of 2017, the disposal will not qualify for capital treatment as she will not have owned the shares for the requisite five years until 1 March 2018. She will therefore be taxed on the receipt as a dividend.

She will be treated as receiving a dividend of £25,500 (500 x (£52 – £1)). This will be taxed as follows:

| | £ |
|---|---|
| Balance of the nil rate band for dividends: £1,000 (£5,000 – £4,000) at 0% | 0 |
| Balance of the basic rate band: £4,000 (£32,000 – (£34,000 + £5,000 – £11,000)) at 7·5% | 300 |
| Balance of the dividend: £20,500 (£25,500 – £1,000 – £4,000) at 32·5% | 6,662 |
| Income tax on dividend | 6,962 |

After-tax proceeds are £19,038 ((500 x £52) – £6,962).

The sale of the shares to Jordi will therefore be preferable as it will leave Kat with the higher after-tax proceeds.

**(c) Jordi – extraction of profits**

**Payment of bonus**

Traiste Ltd will have to account for income tax and class 1 employee's and employer's national insurance contributions (NIC), under the PAYE regulations.

Jordi will suffer deduction of income tax at the rate of 40%, and employee's NIC at the rate of 2% on the gross amount of the bonus. The gross amount payable will therefore need to be £51,724 (£30,000/0·58).

The total amount payable to HM Revenue and Customs (HMRC) by Traiste Ltd will be:

| | £ |
|---|---|
| Income tax on £51,724 at 40% | 20,690 |
| Employee's NIC on £51,724 at 2% | 1,034 |
| Employer's NIC on £51,724 at 13·8% | 7,138 |
| | 28,862 |

This is due for payment by 22 April 2018.

**Payment of dividend**

No payments to HMRC will be required from Traiste Ltd.

## 5 Achiote Ltd, Borage Ltd and Caraway Ltd

**(a) Goodwill**

No amortisation in respect of goodwill is deductible for corporation tax purposes, so the amortisation charged in the accounts for the year ended 31 March 2017 must be added back for tax purposes.

**Patent**

As the patent is transferred between two members of a capital gains group, it will be transferred at a price which is tax neutral. The written down value of the patent in Achiote Ltd at the date of its sale to Borage Ltd was £26,600 (£38,000 – (3 x 10% x £38,000)). Accordingly this will be the deemed acquisition price for Borage Ltd. Borage Ltd will continue to amortise the patent over the remainder of its ten-year life. In the year ended 31 March 2017 amortisation charged in its accounts will be £950 (£26,600/7 x 3/12). This amount is allowable for corporation tax purposes.

**(b) Loan to Caraway Inc**

It would appear that an arm's length rate of interest on the loan would be 8% as this is the rate at which Caraway Inc could have obtained an equivalent loan from an unrelated party. As Achiote Ltd controls Caraway Inc, they are connected companies and so the transfer pricing rules apply.

The interest receivable by Achiote Ltd is £2,000 (£100,000 x 2%) less than it would be under an arm's length agreement. This means that Achiote Ltd's non-trading loan relationship income is reduced by this amount, such that less tax is payable in the UK. Therefore, Achiote Ltd must adjust the figures within its corporation tax return to reflect the arm's length price.

As there is no double tax treaty between the UK and Nuxabar, Nuxabar will be regarded as a non-qualifying territory. As a result, the exemption which might otherwise have been available if a group is not large will not be available to the Achiote Ltd group.

Achiote Ltd can seek advance approval from HM Revenue and Customs in respect of any intra-group pricing arrangements, including the rate of interest to be charged on a loan.

**(c) Transfer of the item of equipment and the sale of shares in Caraway Inc**

**Sale of item of equipment**

The intra-group transfer of the item of equipment by Achiote Ltd to Caraway Inc will not be treated as a no gain, no loss transfer, because even though Achiote Ltd owns 80% of the company, such that the companies are in a capital gains group, the fact that Caraway Inc is not a UK resident company means that the asset will no longer be within the charge to UK taxation. This is therefore a chargeable disposal for Achiote Ltd at 1 March 2017. Although the equipment has fallen in value, no capital loss will arise as the asset qualified for capital allowances as it was used in Achiote Ltd's trade.

**Sale of shares in Caraway Inc**

The sale of the 8% holding in Caraway Inc will not be exempt from corporation tax under the substantial shareholding exemption (SSE) rules. This is because Achiote Ltd will only have held its shares in Caraway Inc for nine months prior to the proposed disposal date and so will not meet the criteria to have owned at least 10% of the shares in Caraway Inc for a continuous 12-month period out of the two years prior to disposal. Accordingly, a chargeable gain will arise on the disposal, calculated as follows:

| | £ |
|---|---|
| Disposal proceeds | 66,000 |
| *Less:* Cost £258,000 x 8/80 | (25,800) |
| Unindexed gain | 40,200 |
| *Less:* Indexation allowance (0·033 x £25,800) | (851) |
| Chargeable gain | 39,349 |

**Tutorial notes:**

1. *The equipment is not exempt as a wasting asset as it qualified for capital allowances due to being used in a business.*
2. *When a calculation for the sale of shares is this straightforward, there is no need to use a share pool in order to calculate the indexed cost of shares sold.*

**(d) (i) Reasons why Rye Ltd might not charge value added tax (VAT) on its sales to Achiote Ltd**

Rye Ltd is a small company, and its taxable supplies may not yet have reached the registration threshold.

Rye Ltd's taxable supplies have reached the registration threshold, but its supplies to Achiote Ltd are zero rated.

**(ii) Option to tax the commercial building**

As the building purchased by Achiote Ltd was less than three years old, and a commercial building, it would have been a standard-rated supply. So Achiote Ltd will have incurred a significant amount of input value added tax (VAT) in relation to this expenditure. For this reason, it will be financially beneficial (at least in the short term), for Achiote Ltd to opt to tax the building in order to be able to reclaim this tax. This will also enable Achiote Ltd to recover the input tax in respect of the building's running costs.

However, VAT must then be added to the rent charged by Achiote Ltd to Rye Ltd. The impact of this on Rye Ltd will depend on its size and the nature of its supplies.

- If its taxable supplies are currently below the registration limit, Rye Ltd could voluntarily register for VAT purposes and reclaim the input VAT charged on the rent payments.
- If Rye Ltd's taxable supplies have reached the registration threshold, but its supplies are wholly or partially zero rated, provided it has registered for VAT purposes, the input VAT charged on the rent payments will, again, be reclaimable, and may lead to a (higher) repayment of VAT from HM Revenue and Customs.

**Tutorial note:** *In order to determine whether or not opting to tax the commercial building would be commercially beneficial, longer term implications, such as the impact on the building's future marketability, would also need to be considered. Credit was also available for candidates who made reference to partial exemption.*

| | | | *Available* | *Maximum* |
|---|---|---|---|---|
| **1** | **(i)** | Completion of table | 1·5 | |
| | | Strategy A | | |
| | | 2017/18 | 3·5 | |
| | | 2018/19 | 5 | |
| | | Strategy B | | |
| | | Cost of employees | 5·5 | |
| | | 2017/18 | 3·5 | |
| | | 2018/19 | 2·5 | |
| | | Evaluation | 2 | |
| | | | 23·5 | 20 |
| | **(ii)** | PET and death within seven years | 3·5 | |
| | | Deed of variation | 2 | |
| | | | 5·5 | 5 |
| | **(iii)** | Gain on shares sold | 2 | |
| | | Deferred gain | 2 | |
| | | Capital gains tax liability | 1·5 | |
| | | Income tax | 1·5 | |
| | | | 7 | 6 |
| | Problem solving | | 1 | |
| | Clarity of explanations and calculations | | 1 | |
| | Effectiveness of communication | | 1 | |
| | Overall presentation and style | | 1 | |
| | | | 4 | 4 |
| | **Total** | | | **35** |
| **2** | **(a)** | Requirement to pay by instalments | 3·5 | |
| | | Definition of capital gains group | 2 | |
| | | Amount to transfer | 4 | |
| | | Specific information | | |
| | | Mantet Ltd | 2 | |
| | | Newell Rap Ltd | 2 | |
| | | Orin Hod Ltd | 1 | |
| | | Other 100% companies | 0·5 | |
| | | | 15 | 11 |
| | **(b)** | One mark for each relevant point (maximum of 4 marks) | 4 | 4 |
| | **(c)** | One mark for each relevant point (maximum of 5 marks) | 5 | 5 |
| | **(d)** | The need to disclose | 4 | |
| | | Other matters | 3 | |
| | | | 7 | 5 |
| | | **Total** | | **25** |

| | | | | Available | Maximum |
|---|---|---|---|---|---|
| 3 | (a) | (i) | Inclusion of house in Skarta in death estate | 3 | 3 |
| | | (ii) | Chargeable estate | 2 | |
| | | | IHT liability | 3 | |
| | | | Value of Dan's inheritance | 2 | |
| | | | | 7 | 6 |
| | (b) | (i) | Need three ties | 1 | |
| | | | Application of ties | 4·5 | |
| | | | | 5·5 | 5 |
| | | (ii) | Gain before PPR exemption | 3·5 | |
| | | | PPR exemption | 4 | |
| | | | | 7·5 | 6 |
| | | | **Total** | | **20** |
| 4 | (a) | (i) | Income tax implications for Esta | 4 | 3 |
| | | (ii) | Cash payments deductible | 2 | |
| | | | Car lease | 2 | |
| | | | | 4 | 4 |
| | (b) | | Sale of shares to Jordi | 4·5 | |
| | | | Sale of shares to Traiste Ltd | 5 | |
| | | | | 9·5 | 8 |
| | (c) | | Payment of bonus | 4 | |
| | | | Payment of dividend | 1 | |
| | | | | 5 | 5 |
| | | | **Total** | | **20** |
| 5 | (a) | | Goodwill | 1 | |
| | | | Patent | 4 | |
| | | | | 5 | 4 |
| | (b) | | Transfer pricing – reason why it applies | 1 | |
| | | | – implications and action | 5 | |
| | | | | 6 | 5 |
| | (c) | | Transfer of equipment | 2·5 | |
| | | | Sale of shares | 3·5 | |
| | | | | 6 | 5 |
| | (d) | (i) | Reasons why VAT is not charged | 2 | 2 |
| | | (ii) | Beneficial due to input VAT incurred | 1·5 | |
| | | | Implications of option to tax for Rye Ltd | 3 | |
| | | | | 4·5 | 4 |
| | | | **Total** | | **20** |