

Workbook for exams in June 2020 - March 2021

Chapter 3 Pensions and other tax-efficient investments

EIS diagram, p48

The diagram in section 1.4.1 should refer to a **SEIS** company not an EIS company.

VCT key term, p49

The second sentence in the definition of a VCT on p49 should be amended to read:

'They are different to EIS and **SEIS** companies in that the investor can spread their risk via the VCT investing in many smaller unquoted trading companies whereas under an EIS or SEIS investment the entire investment is made in one company.'

Chapter 4 Employment income

Personal service company, p61

In the bullet point list of factors to consider whether the individual is an employee of Top Co the first bullet point should read '**Contract** of/for services' (not control).

Termination payments, p63

In the box at the bottom right of the diagram (underneath First £30,000) the box should be amended to read:

- First £30,000 tax free
- Excess taxed as specific employment income - IT **as top slice of income (NS rates)**

Essential reading Illustration 1: Beneficial loans, p615

Some of the formulae explaining the answers to this Illustration have been omitted.

£775 is calculated as $2.5\% \times (40,000 + 22,000)/2$

£667 is calculated as $£40,000 \times 8/12 \times 2.5\%$; and

£183 is calculated as $£22,000 \times 4/12 \times 2/5\%$

Final paragraph on EMIs, p67

In the final sentence of section 5.2.3 the "!" is in the wrong place in entrepreneurs' relief.

Essential reading section 1.4: Exempt Benefits, p617

The first sentence in the bullet point about Trivial Benefits should be amended to read:

'Any number of trivial benefits each costing up to £50 per employee provided these are not in the form of cash or a cash voucher.'

The rest of this bullet point should remain unchanged.

Chapter 5 Property income

Grant of a short lease, p81

At the bottom of section 1.2 about granting a short lease a formula has been missed. The final section should read:

'Where a trader has paid a premium for the granting of a short lease, he may deduct the following amount against his trading profit, in addition to any rent paid:

$$\text{Amount deductible} = \frac{\text{Amount taxed as rent on landlord}}{\text{No of years of lease}} \text{ p.a.}$$

Chapter 6 Personal tax planning

Diagram in section 5.2 re investing surpluses, p96

In the box relating to pensions in the first bullet point an 'a' has been missed off 'amounts.'

In addition, in the SEIS box it should mention an IT reducer of '50%' not '0%'.

In the VCT box it should refer to the IT reducer being on the 'amount invested in shares.' (not vested and if.)

Skills Checkpoint 2

Step 2 within the Skill activity, p112

Within Step 2 of the Skill activity the word 'Explain' has been missed off the start of the requirement being considered. The word should be added so that the requirement starts with 'Explain the tax implications for Luiza...'

Chapter 7 Capital gains tax computation

Chapter Summary - box on Transfers to connected persons, p134

The final bullet point in the Transfers to connected persons box 'Series of transactions: disposal proceeds proportionate to all classes of assets' should be deleted.

Chapter 11 Inheritance tax computation

Answer to Activity 10 Reduced rate of IHT, p250

The answer deducts the wrong RNRB. The calculation should be:

$$36\% \times (1,400,000 - 200,000 - 150,000 - 325,000) = \text{£261,000}$$

Activity 11 Who pays and suffers IHT on the death estate, p237

The cash left in James' death estates should be £30,000 not £32,000 to match the answer given.

Chapter 13 Capital tax planning

Activity 8 Correcting errors in IHT computation, p285

In the section about the October 2013 Gift to nephew, Simon, the table stating what gift is made has been printed lower down- the table including the share in the partnership and land used in the partnership showing BPR and a PET of zero should have been printed in this Oct 13 gift section. The May 2019 gift to Orla then just includes the main residence showing down to IHT of £30,000 and the scenario then finishes.

Chapter 14 Sole traders

The capital allowances computation, p317 & p331

In the diagram at the bottom of p317 the reference to 'energy saving' plant and machinery being entitled to a 100% FYA/ECA (at the bottom left) should be **deleted**- both the **'energy saving'** and the **'ECA'** should be deleted. These have been removed from the syllabus.

The same diagram is repeated in the Chapter summary on p331 and so the same deletions should be made there.

Chapter 15 Sole trader losses and partnerships

Diagram revising sole trade losses, 342

In the box about the 'Cap on income tax relief' at the bottom right of the diagram the final sentence has an extra 's' on the end of carried forward. It should read carried **forward** not carry forwards.

Activity 1 solution, 353

The 'other income' referred to in the scenario to Activity 1 becomes 'property income' in the answer. This is a typo which makes no difference to the numbers but nonetheless the scenario should be amended to refer to it as **property** income rather than other income.

Partnerships, p347 & 348

The paragraph about limited liability partnerships at the bottom of p347 should actually be located **after** the diagram revising the process for determining profits which is on the next page. (It should be located after the Exam focus point on p348.)

Summary diagram, p349

In the box revising sole trade losses from taxation in the section on 'Trading loss relieved against gains' the final sub bullet point needs (2) amended to read 'current year gains less current year capital losses **less brought forward capital losses.**'

Chapter 16 Corporation tax for single companies

Activity 3, p364

The requirement should ask for an explanation of the tax deductions and/or credits available in the year ending 31 March 2020 (not 2019).

In addition, the solution to this activity should read '... Carry forward against future total profits.' (not profits of the same trade.)

Chapter 20 Administration, winding up and purchase of own shares

Tax considerations for individual shareholder, p471

In section 1.3.2 on Tax considerations for individual shareholders the final sentence needs to be amended as follows:

'ER will be available despite the fact that the company may have ceased trading, provided that the individual had held their shares, which qualified for ER, for two years before the company ceased to trade and the distribution is happening within three years of cessation of the trade.'

Chapter 23 Value added tax

Capital goods scheme, p524

A paragraph has been omitted which explains the initial recovery of input VAT on purchase of the asset on which the CGS applies. Please insert the following sentence immediately after the two bullet points explaining the assets on which the CGS applies:

'In the VAT year the asset is acquired the input recovery is initially based on the use for the quarter of purchase, and is then subject to the annual adjustment as described below.'

Skills Checkpoint 5

Step 5 Write your answer, p571 - 575

Some headings have been omitted from the printed version. The sections with the headings now inserted and highlighted in yellow are summarised below:

The tax implications of Colca Ltd leaving the Grand Ltd group whilst owning the Atuel building

Degrouping charge

- The sale of the Atuel building by Sautso Ltd to Colca Ltd took place at no gain, no loss because the two companies were members of a chargeable gains group. This resulted in a base cost in the building for Colca Ltd equal to Sautso Ltd's cost plus indexation allowance up to December 2017.

(ii) Offer B – in respect of a sale of the company's trade and assets

Post-tax proceeds

Sale proceeds	£
Trade and assets	695,000 (note)
Tax liability/credit in respect of:	
Chargeable gain on the Oribi building (£78,518 (W1) × 19%)	(14,918)
Plant and machinery balancing charge (£12,100 × 19%)	(2,299)
Allowable loss on the Atuel building (£110,000 (W2) × 19%)	<u>20,900</u>
Post-tax proceeds	<u>698,683</u>

Note. Remember that method marks will be available here so even if your tax calc figures are wrong you must have the confidence to bring them together to try to calculate the post-tax

increase the allowable loss.

Chargeable gains and allowable losses on the sale of machinery

- The items of machinery will not be exempt under the wasting chattels rule because they qualify for capital allowances.
- However, any item where both the cost and the proceeds are less than £6,000 will be exempt.
- In respect of the chargeable items of machinery (where the cost or the proceeds is at least £6,000):
 - An item sold at a loss will not result in an allowable capital loss. This is because Colca Ltd will have received capital allowances equal to the fall in value of the item.
 - An item sold at a profit will result in a chargeable gain. Rollover relief will not be available because the items are moveable as opposed to fixed.

Transfer of capital losses to group members

- The whole or part of any capital loss can be transferred to Grand Ltd, Sautso Ltd and any other member of the Grand Ltd chargeable gains group.
- This group consists of Grand Ltd, its directly held 75% subsidiaries, their directly held 75% subsidiaries and so on.

any other 75% subsidiary (ATX)

Colca Ltd should not charge VAT on the sale of its business if the sale is a transfer of a going concern (TOGC). This requires all of the following conditions to be satisfied:

582 Advanced Taxation (ATX – UK)



- The business of Colca Ltd is transferred as a going concern.
- The purchaser will use the assets to carry on the same kind of business as Colca Ltd.
- There is no significant break in trading.
- The purchaser is VAT registered or will become registrable as a result of the purchase.

However, even where the sale of the business qualifies as a TOGC, VAT must still be charged on the sale of any building included as part of the sale if either:

- An option to tax has been made in respect of the building, or
- The building is a commercial building which is less than three years old

No option to tax has been made in respect of either of the buildings to be sold by Colca Ltd.

Further Question Practise

Q11 Wendy, Henry and Dan, p849

In the answer to part 2 in the calculation of the cost in the gains calculation part of the explanation of the £3,235 is omitted. The £3,235 is calculated as:

$$5,000/(5,000+25,000) \times \pounds(150,000+15,000)$$

Q15 Robert p854

The calculation of the gain on the disposal of Bluesky is incorrect. The gain before PPR relief should be **£125,000** not **£75,000**. This will give a revised PPR figure of **£93,750** and a gain after PPR of **£31,250**. Once the AEA is deducted the taxable gain will be **£19,250** and CGT @18% will be **£3,465**.

Q17 Rodin, p817 and p857

The 8/16 gift to Canova should be amended from £73,000 to be **£288,000**.

In the calculation of IHT on the 8/16 PET it is incorrect to state that there is no nil rate band remaining. The earlier 1/09 CLT will no longer fall in the seven year cumulation period. Consequently there will be **£215,000** (£325,000-£25,000-£85,000) **nil rate band remaining**.

The calculation will then be

Gift	288,000
Less 2 x AE	<u>(6,000)</u>
	282,000
Less NRB	<u>(215,000)</u>
	<u>67,000</u>
IHT 67,000x40%	26,800
Less Taper 20%	<u>(5,360)</u>
IHT	<u>21,440</u>

Practise and Revision Kit for exams in June 2019 - March 2020

Q20(a) Monisha and Horner, p154

There is a transposition error in the calculation of tax on the property income (W1). The tax should be £4,605 not £4,650. This then feeds through the answer. The corrected version is given below:

Income tax

	£
<i>Half property income continued to be taxed on Monisha</i>	
Income tax saved in all 6 tax years	
£((4,605 (W1) × ½) – (4,237 (W2) × 40%)) × 6	3,646
<i>Half property income now taxed on Asmat</i>	
Income tax saved in first 5 tax years £((4,605 (W1) × ½) – 0 (W2)) × 5	11,513
Income tax saved in final tax year £((4,605 (W1) × ½) – 847 (W2))	1,456
Total income tax saved	<u>16,615</u>

Workings

1 Property business income liability of Monisha if proposals **not** carried out

	£
Rental income	24,000
Less: Allowable expenses £(3,625 + (8,100 × 25%) + 2,000)	(7,650)
Replacement furniture relief	<u>(1,800)</u>
Property business income	<u>14,550</u>
<i>Tax on property business income</i>	
£14,550 × 40%	5,820
Less: Finance costs tax reducer £8,100 × 75% × 20%	<u>(1,215)</u>
	<u>4,605</u>

The final total tax saving then needs to be adjusted:

Total tax saving

	£
Income tax saving	16,615
Capital gains tax saving	<u>18,174</u>
Total tax saving	<u>34,789</u>

Q27(a)(ii) Noah and Dan, p170

The double tax calculation has been calculated incorrectly. It should be corrected as follows:

IHT ($£214,900 \times 40\%$)	85,960
Less: Double tax relief – the lower of:	
Overseas tax suffered £56,080	
UK IHT on the house ($£229,900 \times 85,960/689,900$)	<u>(28,645)</u>
IHT payable	<u>57,315</u>