
Answers

1 Notes for meeting with Maria Copenhagen

(a) After tax income generated by the expansion of Nucleus Resources

Maria is a higher rate taxpayer, as the current net income from the business exceeds £39,825 (£5,225 + £34,600). Accordingly, the profit generated by the expansion will be subject to tax at a total of 41% (income tax at 40% and class 4 national insurance at 1%).

Employ additional employees

	£
Additional turnover	190,000
Existing irrecoverable VAT will be recoverable (W1, W2)	4,468
	<u>194,468</u>
Salaries (£55,000 + £40,000)	95,000
Class 1 NIC ((£95,000 – (£5,225 x 2)) x 12·8%)	10,822
Cost in respect of car (W4)	2,422
Additional overheads	20,000
	<u>128,244</u>
Net additional income (£194,468 – £128,244)	66,224
Additional income after tax (£66,224 x 59% (100% – 41%))	<u>39,072</u>

Use Quantum Ltd

	£
Additional turnover	190,000
Additional irrecoverable VAT (£8,673 (W3) – £4,468 (W1))	4,205
Quantum Ltd annual fee	140,000
	<u>144,205</u>
Net additional income (£190,000 – £144,205)	45,795
Additional income after tax (£45,795 x 59%)	<u>27,019</u>

Workings

1. Existing business – Irrecoverable VAT due to partial exemption

	£
Partial exemption percentage (40/130)	31%
Total input tax (£37,000 x 17·5%)	6,475
Attributable to taxable supplies (£6,475 x 31%)	(2,007)
Attributable to exempt supplies	<u>4,468</u>

This is below the annual *de minimis* limit of £7,500 (£625 x 12). However, it cannot be recovered as it is more than half of the total input tax.

2. Expanded business with employees – Irrecoverable VAT due to partial exemption

	£
Partial exemption percentage ((40 + 190)/(130 + 190))	72%
Total input tax ((£37,000 + £20,000) x 17·5%)	9,975
Attributable to taxable supplies (£9,975 x 72%)	(7,182)
Attributable to exempt supplies	<u>2,793</u>

This is below the annual *de minimis* limit of £7,500 (£625 x 12) and is less than half of the total input tax. Accordingly, all of the input tax can be recovered.

3. Expanded business using Quantum Ltd – Irrecoverable VAT due to partial exemption

	£
Partial exemption percentage (W2)	72%
Total input tax ((£37,000 + £140,000) x 17.5%)	30,975
Attributable to taxable supplies (£30,975 x 72%)	(22,302)
Attributable to exempt supplies	8,673

This exceeds the annual *de minimis* limit of £7,500 (£625 x 12) and cannot be recovered.

4. Cost in respect of car

	£
Annual cost ((£12,800 – £2,000)/5)	2,160
Class 1A NIC (£12,800 x 16% (note) x 12.8%)	262
	2,422

Note: $15 + (145 - 140)/5 = 16\%$

(b) (i) Inheritance tax on the quoted shares

The inheritance tax position depends on the domicile of the uncle and the location of the quoted shares.

- If the uncle was domiciled in the UK when he made the gift in October 2006, the value of the shares at the time of the gift will be subject to inheritance tax.
- If the uncle was domiciled in Heisenbergia, the gift will only be subject to UK inheritance tax if the shares are UK assets.

Uncle's domicile

- If the uncle was not UK domiciled in 1988 it seems very unlikely from what we know that he would have acquired a UK domicile whilst living in Heisenbergia.
- If the uncle was UK domiciled at the time he left the UK in 1988, he will continue to be UK domiciled unless he acquired a domicile of choice in Heisenbergia.
- In order to have acquired a domicile of choice in Heisenbergia, the uncle would have had to have severed his ties with the UK and exhibited a clear intention of making Heisenbergia his permanent home.

Location of the quoted shares

- The shares are UK assets if the company is incorporated in the UK or the shares are registered in the UK.

Inheritance tax suffered in Heisenbergia

- Any UK inheritance tax due in respect of the gift can be reduced by double tax relief in respect of the inheritance tax charged in Heisenbergia.

Tutorial note

The location of the shares may also be affected by any double tax treaty between the UK and Heisenbergia.

(ii) Creation of the trust

Inheritance tax

- The transfer of shares to the trust would be a chargeable lifetime transfer.
- The value transferred would be reduced by the annual exemptions for the year of the gift and the previous year.
- As the company is quoted, business property relief (at 50%) will only be available in respect of the shares if Niels controls the company, which is unlikely to be the case.
- As Niels has not made any previous chargeable transfers, the transfer would be covered by his £300,000 nil rate band; there would be no inheritance tax due.

Capital gains tax

- The transfer of the shares to the trust represents a disposal at market value.
- Gifts holdover relief would be available (because the gift is immediately chargeable to inheritance tax) such that any gain arising could be deducted from the trustees' base cost of the shares rather than being charged.

Stamp duty

- There is no stamp duty on a gift.

Income tax

- Niels will be subject to income tax on any amounts received from the trust by his sons, subject to a *de minimi* limit of £100 per annum. This is because the boys are both minors and the trust was created with capital provided by their parent, Niels.
- A tax credit will be given in respect of the income tax paid by the trustees.

(iii) Discussion of issues with Maria

- Maria and Niels are separate clients and must be treated as such from the point of view of confidentiality.
- We must not disclose information relating to Niels to anyone, including Maria, unless we have permission from Niels (or such disclosure is required by law or professional duty). Accordingly, we should check to see if we have written permission from Niels to discuss his affairs with his wife.
- Unless we have permission from Niels, we should not discuss the situation relating to the proposed transfer of shares to the trust. This is because we cannot explain the situation to Maria without referring to Niels' tax position, i.e. the lack of previous chargeable transfers.
- Maria's question concerning inheritance tax on the gift from the uncle is different because it can be answered without making any reference to the tax affairs of Niels. It is, arguably, a general question on the workings of inheritance tax. There would be no breach of confidentiality if we discussed this matter with Maria.
- However, we know that it is not a general question and we should still consider the potential problems that could arise in discussing matters with Maria that relate to the personal affairs of Niels without first obtaining permission from Niels.

2 Report

To The management of Particle Ltd
From Tax advisers
Date 1 December 2008
Subject Particle Ltd Group – Various group issues

(i) Sale of Kaon Ltd

Sale of share capital

A sale by Particle Ltd of the share capital of Kaon Ltd will not result in a tax liability due to the availability of the substantial shareholdings exemption. This exemption is available because Particle Ltd is selling a trading company of which it has owned at least 10% for a year.

Accordingly, the after tax proceeds resulting from the sale will be £650,000.

Tutorial note

There will not be a degrouping charge in respect of Atom House, as Kaon Ltd is leaving the group more than six years after the no gain, no loss transfer.

Sale of the trade and assets of the business

The sales proceeds of £770,000 will be reduced by the corporation tax payable on the sale as set out below.

	Note	£
Gain on sale of Atom House (W1)	1	282,934
Balancing allowance (£65,000 – £46,000)	2	(19,000)
Gain on sale of goodwill	3	120,000
		<u>383,934</u>
Corporation tax at 30%	4	<u>115,180</u>

The after tax proceeds resulting from the sale will be £654,820 (£770,000 – £115,180).

This figure must then be reduced by £25,000 in respect of the payment of the company's net liabilities in order for it to be comparable with the net proceeds on the sale of shares.

Accordingly, the net after tax proceeds are £629,820.

Tutorial note

The additional taxable profits arising on the sale of the business will cause the company to pay tax at the full rate. This will increase the corporation tax payable on its annual taxable profits by £3,000 (£30,000 x (30% – 20%)).

Notes

1. Atom House

The purchase of Atom House from Baryon Ltd in March 2002 was a no gain, no loss transfer. Accordingly, Kaon Ltd's base cost for the building is its original cost to the group, as reduced by the claim for rollover relief, plus indexation allowance up to the date of transfer.

The gain arising on the sale by Kaon Ltd can be reduced by the capital loss of £37,100 in Baryon Ltd, as the two companies are in a capital gains group. This will require a claim to be submitted to HM Revenue and Customs (HMRC) by 31 March 2011 (two years from the end of the accounting period). The claim will be to treat assets sold by Kaon Ltd as having been transferred at no gain, no loss to Baryon Ltd prior to sale, such that capital gains of £37,100 arise in Baryon Ltd rather than Kaon Ltd.

Tutorial note

A further corporation tax saving is available if sufficient of the gains realised by Kaon Ltd are treated as having been made by Baryon Ltd such that Kaon Ltd pays corporation tax at the small companies rate. Candidates were given credit for any sensible use of the capital loss of Baryon Ltd.

2. Machinery and equipment

It has been assumed that no item of machinery or equipment will be sold for more than cost. The excess of the tax written down value over the sales proceeds will give rise to a tax allowable balancing adjustment.

3. Goodwill

The profit on the sale of goodwill is taxed as a capital gain as the company began trading before 1 April 2002.

Tutorial note

Equal credit was given for treating this profit as a trading profit.

4. Rate of corporation tax

In the year ended 31 March 2009 the limits used to determine the rate of corporation tax will be divided by six to reflect the number of associated companies in the group. Accordingly, Kaon Ltd will pay corporation tax at the full rate of 30% if its taxable profits exceed £250,000 (£1,500,000/6). The sale of the business will increase the taxable profits of the company such that they will exceed this limit.

VAT on the sale of the business

The sale of the business of Kaon Ltd will be outside the scope of VAT, such that no VAT should be charged, provided the following conditions are satisfied.

- The business is transferred as a going concern.
- The purchaser intends to use the assets to carry on the same kind of business as Kaon Ltd.
- The purchaser is VAT registered or will become registrable as a result of the purchase.

Workings

1. Tax on gain on sale of Atom House

	£
Proceeds	604,000
Less: Cost (W2)	(236,048)
	<u>367,952</u>
Indexation allowance from March 2002 to January 2009 (£236,048 x 0.203)	(47,918)
	<u>320,034</u>
Capital loss available in Baryon Ltd	(37,100)
	<u>282,934</u>

2. Cost of Atom House

	£
Original cost to Baryon Ltd	272,000
Less: Rollover relief (W3)	(51,600)
	<u>220,400</u>
Indexation allowance from July 1998 to March 2002 (£220,400 x 0.071)	15,648
	<u>236,048</u>

3. Rollover relief in respect of Atom House

	£
Gain on sale of Bohr Square	89,000
Sales proceeds not reinvested in Atom House (£309,400 – £272,000)	(37,400)
	<u>51,600</u>

(ii) Muon Inc

VAT

It will not be possible for Muon Inc to join the Particle Ltd group registration unless it has an established place of business in the UK. This is not a problem, however, as there will be no VAT on the sales of components to Muon Inc; exports to countries outside the European Union (EU) are zero rated.

Interest on the loan from Particle Ltd

The profit or loss arising on transactions between Particle Ltd and Muon Inc must be determined as if the two companies are independent of each other because Particle Ltd controls Muon Inc. This rule applies regardless of the size of Particle Ltd because Muon Inc is resident in a country that does not have a double tax treaty with the UK.

Accordingly, the taxable profit of Particle Ltd must be increased in order to reflect a market rate of interest on the loan.

(iii) Payment of corporation tax

In the year ended 31 March 2008 there were three companies in the group. Accordingly, the limits would have been divided by three to determine the rate of corporation tax. The taxable profit of each of the three companies was less than £500,000 (£1,500,000/3) such that no company will have to pay tax at the full rate. Therefore, the tax is due on 1 January 2009, nine months and one day after the end of the accounting period.

In respect of the year ended 31 March 2009, some of the companies in the group will pay tax at the full rate, due to the additional associated companies and the consequent lowering of the limits. However, this will not affect the date on which corporation tax is payable provided it is the first year in which it has occurred. Corporation tax will be payable on 1 January 2010.

In the year ended 31 March 2010 there will be five companies in the group. Those companies with taxable profits in excess of £300,000 (£1,500,000/5) will have to pay their corporation tax liability in four equal instalments (if they paid tax at the full rate in the year ending 31 March 2009). The instalments will be due on 14 October 2009, 14 January 2010, 14 April 2010 and 14 July 2010.

It should be noted that, under the instalment system, a company's tax liability has to be estimated because the first three payments are due during and shortly after the end of the accounting period. Once the final liability is known, interest will be charged by HMRC on any amounts paid late and will be paid to the company on any amounts paid early or overpaid (albeit at a lower rate of interest). Interest paid is allowable for tax purposes and interest received is taxable.

In view of the difficulties involved in estimating the tax due, a system exists for groups of companies whereby a nominated company can pay instalments on behalf of the group and allocate them between the group members once the liabilities are known. This enables underpayments and overpayments of tax that might have otherwise arisen in separate companies to be offset thus mitigating the effect of the differential between the interest charged and paid by HMRC. The group for this purpose can include any of the companies in the Particle Ltd group required to pay tax in instalments.

3 (a) Ernest – Maximisation of after tax sales proceeds

Sale of painting

	£
Proceeds	47,000
Less: Cost (probate value)	(23,800)
	<u>23,200</u>
Taper relief – non-business asset owned for four years 90% of the gain is chargeable	20,880
Less: Annual exemption	(9,200)
Taxable capital gain	<u>11,680</u>
Capital gains tax (£11,680 x 40%)	4,672
After tax sales proceeds (£47,000 – £4,672)	<u>42,328</u>

Sale of shares

	£
Proceeds (7,700 x £5)	38,500
Less: Cost (W1)	(52,780)
Capital loss	<u>14,280</u>
Income tax refund (Note 1) (£14,280 x 40%)	5,712
After tax sales proceeds (£38,500 + £5,712)	<u>44,212</u>

Note 1

The capital loss on the sale of the shares in Neutron Ltd can be offset against Ernest's income in the year of disposal and/or the previous year. This is because Ernest subscribed for the shares and, as they qualified for relief under the enterprise investment scheme (EIS), Neutron Ltd satisfies the conditions necessary to qualify as a trading company for the purposes of offsetting any capital loss on disposal against income.

Working

1. Neutron Ltd – Cost of shares sold

		Number	£	£
1 April 2001	Purchase	18,600	8.90	165,540
1 March 2003	Bonus issue – 1 for 4	4,650		
		23,250		
1 July 2006	Rights issue – 1 for 10	2,325	4.20	9,765
		25,575		175,305
	Proposed sale (7,700/25,575 x £175,305)	(7,700)		(52,780)
		17,875		122,525

(b) Planning for inheritance tax

Current position

- The shares in Neutron Ltd will be fully relieved via business property relief and therefore will not give rise to any inheritance tax either on Ernest's death or in the case of their subsequent disposal (on death or by lifetime gift) by whoever inherits them.

Tutorial note

The minimum two years ownership period does not apply to inherited assets that qualified for business property relief at the time of the previous death.

If Ernest dies before Georgina

- Ernest's estate, as reduced by the nil band of £300,000, will be taxed at 40%.
- When Georgina dies, her estate (including those assets inherited from Ernest), as reduced by the nil band of £300,000, will be taxed at 40%.
- Problem:
Some of Ernest's assets will be taxed twice, once on his death and again on the death of Georgina. Quick succession relief will mitigate the double taxation if the deaths occur within five years of each other but only to a limited extent.

If Georgina dies before Ernest

- Georgina's estate of £60,000 will be covered by the nil rate band such that there will be no inheritance tax liability.
- When Ernest dies, his estate, as reduced by the nil band of £300,000, will be taxed at 40% (as above).
- Problem:
Georgina is wasting most of her nil rate band due to an insufficiency of assets.

Advice to Ernest

1. Ernest should give assets worth £240,000 to Georgina.

This gift will be a potentially exempt transfer but will become a chargeable transfer if Ernest dies within seven years. Even so, the gift must improve Ernest's inheritance tax position. This is because the value of the assets given will be frozen at the time of the gift, the gift will be reduced by the annual exemption and taper relief will be available if Ernest survives the gift by at least three years.

On Georgina's death, £300,000 of her estate, i.e. £240,000 more than before, will not give rise to any inheritance tax as it will be covered by her nil rate band.

Accordingly, there will be no inheritance tax liability in respect of the value of the gift if Ernest survives the gift by seven years. This will save inheritance tax of £96,000 (£240,000 at 40%).

The gift will be a disposal at market value for the purposes of capital gains tax.

The gift should not be made out of the Neutron Ltd shares because of the availability of the 100% business property relief.

2. Ernest should change his will and leave some assets directly to Eileen. These assets will then be subject to inheritance tax once only rather than potentially twice saving inheritance tax up to a maximum of 40%.

Tutorial note

Ernest and Georgina are not married. Accordingly, transfers between them are not exempt from inheritance tax. Credit was available for pointing this out or for identifying the advantage of the couple getting married.

4 (a) Taxation of shares in Quark Ltd and redundancy payment

Shares in Quark Ltd

Withdrawal of shares

- If the shares have been within the plan for less than three years, income tax and national insurance contributions will be charged on their market value at the time of withdrawal.
- If the shares have been within the plan for more than three years, income tax and national insurance contributions will be charged on the lower of their value at the time they were awarded to James and their value at the time of withdrawal.

Sale of shares

- The shares will have a base cost for the purposes of capital gains tax equal to their market value at the time of their withdrawal from the plan. Accordingly, no capital gain will have arisen on their immediate sale.

Tutorial note

There is no need to consider the situation where the shares have been in the plan for five years or more as the first award was less than five years prior to the date on which they will be withdrawn.

Redundancy payment

Any amount of statutory redundancy included within the payment is not subject to income tax or to national insurance contributions.

The first £30,000 of the balance of the payment, as reduced by any amount of tax-free statutory redundancy, will be exempt from income tax and national insurance contributions provided it relates solely to redundancy and is not simply a terminal bonus. The remainder of the payment will be subject to income tax in full, but not to national insurance contributions.

The payment in lieu of notice will be subject to both income tax and national insurance contributions on the full amount, as it is the normal custom of Quark Ltd to make such payments.

(b) (i) The effect on James's annual income, after deduction of all taxes, of working for Proton Ltd rather than Quark Ltd

	£
Reduction in salary (£70,000 – £48,000)	(22,000)
Reduction in income tax on salary (£22,000 x 40%)	8,800
Reduction in national insurance contributions (£22,000 x 1%)	220
Additional dividend	18,000
Tax on dividend (note)	–
Tax on deemed employment income (£18,639 (W1) x 40%)	(7,456)
National insurance on deemed employment income (£18,639 x 1%)	(186)
Fall in James's annual income after all taxes	<u>(2,622)</u>

Note

A claim can be made by Proton Ltd for the dividend to be regarded as having been paid out of the deemed employment income and therefore not be subject to income tax in the hands of James.

Tutorial note

James will be a higher rate taxpayer regardless of whether he is working for Quark Ltd or Proton Ltd. Accordingly, the calculations of the effect on his income after deduction of all taxes can be carried out at the margin. Candidates who prepared full income tax computations were able to score full marks but may have spent more time on them than was necessary.

Working

1. Deemed employment income

	£
Income of Proton Ltd in respect of relevant engagements	80,000
Less: 5% deduction	(4,000)
Reimbursed travel expenses	(1,500)
Salary paid to James	(48,000)
Employer's NIC ((£48,000 – £5,225) x 12.8%)	(5,475)
	<u>21,025</u>
Less: Employer's NIC on deemed employment income (£21,025 x 12.8/112.8)	(2,386)
Deemed employment income	<u>18,639</u>

- (ii) The effect on James's annual income, after deduction of all taxes, if the income of Proton Ltd were not regarded as being in respect of relevant engagements

	£
Anticipated fall in annual income per part (i)	(2,622)
Tax and NIC on deemed employment income no longer payable (£7,456 + £186)	7,642
Income tax on dividends (£18,000 x 25%)	(4,500)
Increase in James's annual income after all taxes	<u>520</u>

Note: the effective rate of tax on dividend income that falls within the higher rate band is 25% $((32.5\% - 10\%)/0.9)$.

(c) Specific contractual arrangements

Any THREE of the following:

- Any necessary equipment or tools should be provided by Proton Ltd rather than its customers.
- The degree of the customers' control over when and how the work is carried out by James should be kept to a minimum.
- Proton Ltd should bear a degree of financial risk, e.g. by quoting fixed contract prices.
- Payments should be made under the contracts by reference to the work done rather than periods of time.
- Proton Ltd should be obliged to correct any unsatisfactory work at its own expense.
- Payments should be made under the contracts in respect of the work carried out. The contracts should not include any provisions whereby payments will be made in respect of illness or holidays.
- Each contract should only come to an end when the work is completed or the contract has been breached in some way.

Tutorial note

The relationships between Proton Ltd and its customers will each have to be considered separately. A contract may be regarded as a relevant engagement if it would have been an employer/employee relationship had it been between the customer and James.

5 (a) Boson – Capital gains tax

Boson's capital gains tax position

Boson will have been non-resident and non-ordinarily resident whilst living in Higgsia as he has been abroad for more than three years. Accordingly, he will not be subject to capital gains tax on disposals made during that period unless he is classed as a temporary non-resident.

Boson will be treated as a temporary non-resident if he returns to the UK on or before 5 April 2009. This is because he was UK resident for four of the seven years prior to leaving the UK and he will have been absent for less than five complete tax years. As a temporary non-resident any capital gains made whilst overseas on assets owned at the time Boson left the UK will be subject to capital gains tax in the year of return, i.e. if he returns as planned on 20 January 2009 in 2008/09. Gains on assets purchased after he left the UK do not come within the temporary non-resident rules.

Boson will become UK resident and ordinarily resident from the date he returns to the UK as he is returning permanently. He will then be subject to capital gains tax on his worldwide assets.

Sale of the shares in Meson plc on 1 May 2004 and 1 November 2008

Boson owned the shares at the time he left the UK. Accordingly, Boson should delay his return to the UK until after 5 April 2009 in order to avoid the gains being charged to capital gains tax.

Sale of the house in Higgsia

Boson purchased the house after leaving the UK. Accordingly, the disposal will not fall within the temporary non-resident rules. Therefore, the disposal will not be subject to capital gains tax if Boson sells the house in a tax year prior to his again becoming resident or ordinarily resident in the UK. So Boson should again defer his return to the UK until after 5 April 2009 and sell the house prior to this date, in the tax year 2008/09.

(b) (i) Rental income after deduction of all taxes

	£	£
Rental income		11,000
Higgsian income tax (£11,000 x 30%)		3,300
UK income tax:		
£7,275 (W1) x 22%	1,600	
£3,725 (£11,000 – £7,275) x 40%	1,490	
	<u>3,090</u>	
Less: Double tax relief (lower of UK and foreign tax)	<u>(3,090)</u>	
		–
Total tax on overseas rental income		<u>3,300</u>
Income after deduction of all taxes (£11,000 – £3,300)		<u>7,700</u>

Working

1. Remainder of basic rate band

	£
Salary	32,550
Less: Personal allowance	<u>(5,225)</u>
	27,325
Basic rate band	<u>34,600</u>
Remainder of basic rate band	<u>7,275</u>

(ii) Dividend income after deduction of all taxes

	£
Dividend income (£200,000 x 4.3%)	8,600
Taxable dividend income (£8,600 x 10/9)	<u>9,556</u>
UK income tax:	
£7,275 x 10%	727
£2,281 ((£9,556 – £7,275) x 32.5%)	<u>741</u>
	1,468
Less: Tax credit (£9,556 x 10%)	<u>(956)</u>
	512
Income after deduction of all taxes (£8,600 – £512)	<u>8,088</u>

(iii) Maximum fall in rate of return on portfolio of quoted shares

	£
Maximum fall in after tax income (£8,088 – £7,700)	388
Maximum fall in dividend income (£388/0.75)	<u>517</u>
Minimum dividend income (£8,600 – £517)	<u>8,083</u>
Minimum rate of return (£8,083/£200,000)	4.04%
Rate of return can fall by (4.3% – 4.04%)	<u>0.26%</u>

Note: the effective rate of tax on dividend income that falls within the higher rate band is 25% ((32.5% – 10%)/0.9).

	<i>Available</i>	<i>Maximum</i>
1 (a) VAT position		
Existing business	3	
Expand with employees	2	
Expand using Quantum Ltd	2	
Employ additional staff		
Turnover	0.5	
Irrecoverable VAT	1	
Salaries and Class 1 NIC	1.5	
Car		
Cost	1	
Class 1A NIC	1.5	
Additional overheads	0.5	
Income after tax	1	
Use Quantum Ltd		
Turnover	0.5	
Irrecoverable VAT	1	
Annual fee	0.5	
Income after tax	0.5	
	16.5	14
(b) (i) Relevance of domicile	1	
Relevance of location of shares	1	
Uncle's domicile in 1988	2	
Acquisition of domicile of choice in Heisenbergia	1	
Location of shares	1	
Double tax relief	1	
	7	6
(ii) Inheritance tax		
Chargeable lifetime transfer	1	
Annual exemptions	0.5	
Business property relief	0.5	
Covered by nil rate band	1	
Capital gains tax		
Gain by reference to market value	1	
Gift relief available	1	
Income tax		
Payable by Niels, with reasons	2	
Tax credit for tax paid by trustees	0.5	
Stamp duty	1	
	8.5	7
(iii) Two separate clients	1	
Statement of general rule	1	
Transfer of shares to trust	1.5	
Inheritance tax on gift from uncle	2	
	5.5	4
Appropriate style and presentation	1	
Effectiveness of communication	1	
Logical structure	0.5	
	2.5	2
Total		33

	<i>Available</i>	<i>Maximum</i>
2 (i) Sale of share capital		
Availability of substantial shareholding exemption	1	
Reason for availability	1	
After tax proceeds	0.5	
Sale of business		
Atom House		
Cost of Atom House		
Use of original cost to Baryon Ltd	0.5	
Rollover relief	1.5	
IA to March 2002	1	
Gain on sale by Kaon Ltd	0.5	
Use of capital loss from Baryon Ltd	1	
Claim required	1	
Machinery and equipment	1	
Goodwill	1	
Rate of corporation tax	1.5	
Payment of net liabilities	1	
After tax proceeds	0.5	
Explanatory notes – 1 mark each – maximum 3 marks	3	
VAT	2	
	18	14
(ii) VAT group	1	
Zero rated	1	
Transfer pricing		
Identification of issue	1	
Why rules apply	2	
Effect	1	
	6	5
(iii) Year ended 31 March 2008	1.5	
Year ended 31 March 2009	1.5	
Year ended 31 March 2010		
Reason for instalment basis	1	
Due dates	1	
Interest and need to estimate liabilities	1.5	
Group payment		
Operation	1	
Why possibly beneficial	1	
	8.5	7
Appropriate style and presentation	1	
Effectiveness of communication	1.5	
Logical structure	0.5	
	3	3
Total		29

	<i>Available</i>	<i>Maximum</i>
3 (a) Sale of painting		
Capital gain before taper relief	1	
Taper relief	1	
Annual exemption	0.5	
Capital gains tax payable	0.5	
After tax sales proceeds	0.5	
Sale of shares		
Cost of shares sold	2	
Capital loss	0.5	
Tax saving in respect of losses	1.5	
After tax sales proceeds	0.5	
	<u>8</u>	<u>7</u>
(b) Current position		
Business property relief on the shares in Neutron Ltd	1.5	
Ernest dies before Georgina		
Tax on Ernest's death estate	1	
Tax on Georgina's death estate	1	
Identification of problem	1	
Quick succession relief	1	
Georgina dies before Ernest		
Tax on Georgina's death estate	0.5	
Tax on Ernest's death estate	0.5	
Identification of problem	1	
Advice		
Gift assets to Georgina	1	
Inheritance tax implications	1.5	
Potential inheritance tax saving	1	
Capital gains tax implications	2	
Should not gift shares in Neutron Ltd	0.5	
Change will and leave assets to Eileen	1	
Potential inheritance tax saving	0.5	
	<u>15</u>	<u>12</u>
Total		<u>19</u>

	<i>Available</i>	<i>Maximum</i>
4 (a) Shares in Quark Ltd		
Income tax where shares in plan for less than three years	1	
Income tax where shares in plan for three years or more	1.5	
Also subject to NIC	0.5	
Capital gains tax on sale	1	
Redundancy payment		
Statutory redundancy	1	
£30,000 exemption	1.5	
Not subject to NIC	0.5	
Payment in lieu of notice	1	
	<u>8</u>	6
(b) (i) Effect of fall in salary net of all taxes	2.5	
Dividend income	0.5	
No tax on dividend income	1	
Tax and NIC on deemed employment income	1	
Deemed employment income		
Income	0.5	
5% deduction, travel expenses, salary (0.5 each)	1.5	
Employer's NIC on salary	1	
Employer's NIC on deemed payment	1	
	<u>9</u>	8
(ii) Income tax and NIC no longer payable	1	
Income tax on dividends	1	
	<u>2</u>	2
(c) One mark for each contractual arrangement	3	
	<u>3</u>	3
Total		<u>19</u>

	<i>Available</i>	<i>Maximum</i>
5 (a) Position whilst living in Higgsia		
Not subject to UK capital gains tax with reason	2	
Circumstances giving rise to temporary non-resident status	2	
Implications of temporary non-resident status	2	
Position on returning to the UK		
Subject to capital gains tax with reason	1.5	
Sales of shares	1.5	
Potential sale of house	2	
	<u>11</u>	9
(b) (i) Higgsian income tax	0.5	
UK income tax		
Remainder of basic rate band		
Salary	0.5	
Personal allowance	0.5	
Excess over basic rate band	0.5	
Tax at appropriate rates	0.5	
Double tax relief	1	
Income after deduction of all taxes	0.5	
	<u>4</u>	4
(ii) Taxable dividend income	1	
Tax at appropriate rates	1	
Tax credit	0.5	
Income after deduction of all taxes	0.5	
	<u>3</u>	3
(iii) Maximum fall in dividend income	1.5	
Minimum rate of return required	1	
Maximum fall in rate of return	0.5	
	<u>3</u>	3
Total		<u>19</u>