ACA MASTERS

BPT: Prize Winner Open Book Notes

These notes summarise the key technical areas for the most examinable parts of the BPT syllabus and therefore serve as a useful and time effective look up in the exam. The notes also include calculation proformas and reminders.

There is also a section on Common Exam Scenarios with reminders of the key points you should consider including in your answer for the frequently examined scenarios. Always remember to tailor your answer to the specific facts in the scenario. Nothing annoys the examiner more than a student who tries to dump a pre-prepared answer.

Our classroom and online tuition classes demonstrate exactly how to answer BPT exam questions.

Contents:

Corporate Groups

- Define loss relief group and gains groups
- Explain who can and can't surrender losses / benefit from CG group reliefs
- Discuss all options and calculate tax savings, considering:
- Cash flow timing
- Future profit levels
- Future tax rates falling (avoid c/f losses)
- Pre-April 2017 b/f losses first (more restrictive)
- Wastage of QCD / DTR
- Tax payment dates
- No of Associates impacts payment dates
- De-grouping charges for PPE if company leaving the group – covered by SSE if a qualifying share disposal
- De-grouping charges for Intangibles if company leaving the group – not covered by SSE

CORPORATE LOSSES	Options (post April 17 losses)			
	C/B	CY - Entity / Group	C/F	Terminal
Trading Loss	Total profits*	Total profits* / GR	Total profits** / GR**	Total profits c/b (36m)
Property Loss / IFAs		Total profits / GR	Total profits** / GR**	
NTLR Dr	NTLR	Total profits / GR	Total profits** / GR**	
Chargeable Loss		CG only / Reallocate rather than GR	CG	

* 'All or nothing claim'

** £5m + 50% (£Taxable Profits - £5m)

** must use own b/f losses before surrendering / claiming

CORPORATE LOSSES	Options (pre April 17 losses)			
	C/B	CY - Entity / Group	C/F	Terminal
Trading Loss	Total profits*	Total profits* / GR	Trading profits	Total profits c/b (36m)
Property Loss		Total profits / GR	Total profits	
NTLR Dr (partial claims)	NTLR	Total profits / GR	NTLR / CG	
Chargeable Loss		CG only / Reallocate rather than GR	CG	

* 'All or nothing claim'

Corporate liquidation

- Company ceases to trade – Balancing allowances, Terminal loss relief, no losses can be carried forward to offset against the gains arising from sale of assets
- Therefore, if there are trading losses then it's beneficial to cease to trade after all assets have been sold
- Loss relief claims will increase cash in the company available for distribution
- Distributions before appointment of a liquidator will be taxed as IT as normal
- Distributions after appointment of a liquidator will be taxed as CGT
- Preference depends on the shareholders;
  - Corporate shareholders – Divs exempt v SSE on gains
  - Individual shareholders – Dividend allowance v ER and AE
- Loss Relief groups cease but CG groups remain

Employment Income	reminders	NI - Ee	NI - Em
Cash :			
Salary and bonus	*cash received*	Class 1	Class 1
Vouchers	*cost to employer*	Class 1	Class 1
Lump Sum		Class 1	Class 1
Entertaining allowance	*minus amounts spent on entertaining*	Class 1	Class 1
Mileage payments	*Above 45p/25p pm*	Class 1	Class 1
reimbursed expenses	*not taxable*		
Childcare payment	*Excess above BRB (£55 pw), HRB (£28pw), ARB (£25pw)*	Class 1	Class 1
Taxable Benefits:			
Accomodation	*Annual rent + additional amount if >£75k*		Class 1A
Accomodation expenses	*Job-related?*		Class 1A
Cars	*List price * CO2 based %*		Class 1A
Car Fuel	*Fuel ben charge * CO2 based %*		Class 1A
Van	*Flat rate*		Class 1A
Van Fuel	*Flat rate*		Class 1A
Loans	*>£10k: Interest saved is benefit*		Class 1A
Asset	*20% * MV*		Class 1A
Other	*Cost to employer, not MV*		Class 1A
Exempt benefits:			
Employer pension cont	*To both occupational and personal schemes*		
Trivial	*>£50*		
Mobile phone			
Staff canteen			
Social events	*>£150*		
Car parking	*near work*		
Training	*work related*		
Bikes			
Health screening	*Not private cover*		
allowable deductions:	*must be 100% work purpose*		
Travel	*To client, on secondment <24m, site-based employee*		
Professional subs not reimbursed	*e.g. ICAEW*		
Mileage payments	*Below 45/25p pm*		
Ee pension cont to workplace scheme	*Not personal pension cont*		

- **Couples:** NGNL transfers, Plan to use both AE (Proceeds must be retained by disposing spouse)
- **Connected persons**: Includes family and business partners, Disposals at MV, Losses between connected parties can only be offset against gains from the same person
- **Shares:** When part of a portfolio is disposed of, need to identify the cost of the shares sold i.e. allocate specific shares to the disposal
- **Deferred Consideration**: If known, then tax future amount now. If unknown, an estimate of future amount is made and taxed
- **Residency**: UK Residents taxed on Worldwide gains. Non-residents only taxed on UK residential property. 'Temporary' Non-residents (less than 5 years) taxed on all gains when they come back to UK

CGT Reliefs

Rollover

- Sells business asset and replaces with new asset
- The gain on the old assets is 'rolled into' the base cost of the new asset
- When the new asset is sold, the gain will be higher as the base cost is lower – ROR defers the tax charge
- Qualifying assets (L&B, P&M) + must have been used for the trade
- 4-year reinvestment window – 1 year before disposal, 3 years after
- If proceeds not fully reinvested, partial relief is given
- 'Holdover' relief for depreciating assets (P&M) – 10-year max deferral. Gain is not rolled into the base cost

Gift of Business Assets

- Gift or below MV sale of a business asset

Applies to:

1. Assets used in the donor's business e.g. L&B and Fixed P&M
2. Shares in the donor's company
3. Shares (unquoted) in a trading company

- The gain on the old assets / shares is 'rolled into' the base cost of the donee's shares / assets
- This will cause a higher gain in the future. This gain will be taxable on the donee, not the donor – GR defers and transfers the tax charge

- Restriction when shares are transferred – CBA/CA
- CBA excludes assets not used in the trade i.e. share investments
- Any consideration actually received is chargeable

Entrepreneurs'

- Disposal of business assets

Applies to:

1. Assets used in their business e.g. L&B and Fixed P&M
2. Shares

- Charges CGT at 10% on disposal
- Conditions; Owns 5% and is an employee / director, Trading business, 12m ownership condition, Assets used in the business for 1 year prior to disposal, £10m lifetime limit
- GW not eligible for ER when incorporating
- Investors relief – no requirement to work for company

Incorporation

- Relief when incorporating a Sole Trader / Partnership business
- The gains on the assets are ‘rolled into’ the base cost of the shares
- Conditions; Going Concern, All assets transferred (except cash), Shares as consideration
- Can be disapplied to get ER on gains (except GW)
- Any consideration actually received is chargeable – can be manipulated to use AE = tax free cash

Share for Share Exchange

- When acquiring another company, the acquirer may issue shares as consideration
- The shares received by the acquired shareholders and deemed to have been acquired at the same cost as the disposed shares. Therefore, there is no gain on disposal
- Conditions; New securities issues in proportion to old securities, No tax motive
- If cash is received instead of shares, then tax immediately (unless it is <5% of total consideration)
- Individuals - can disapply to get ER on gains
- Companies – SSE takes precedence

Potentially Exempt Transfer (PET)

- If it is not a CLT or Exempt, then it is a PET

Lifetime tax:

- A PET is treated as an exempt transfer during the lifetime of the transferor and is an exempt transfer if they survive seven years

Death tax:

- Chargeable to IHT if transferor dies within 7 years of making PET, subject to taper relief
- Need to look back seven years from the date of a chargeable transfer to reduce nil rate band by other gross chargeable transfers in the preceding seven-year period

PET			reminders
Lifetime tax			
Exempt - uses AE b/f and CY			
Tax on Death (dies within 7 years of gift)			
Value of transfer		X	*Fall in value of transferor estate*
Reliefs		(X)	*APR/BPR, Fall in value, Marriage exemption etc.*
AE		(X)	*b/f and CY if not already used*
Gross Chargeable Transfer (GCT)		X	
NRB	325K		
GCT made in 7 years before gift	(x)		*GCT: asset value AND IHT paid by transferor i.e. LT IHT on CLT*
		(X)	
		X	
IHT @ 40%		X	
Taper relief		(X)	*survived 3-7 years*
IHT payable		X	

Chargeable Lifetime Transfer (CLT)

- Creation of a discretionary trust (or NQ IIP trust)

Lifetime tax:

- Lifetime tax is chargeable on a CLT and charged at 0%, 20% or 25%
- If transferor pays the Lifetime IHT, this is a further diminution in value
- Need to look back seven years from the date of a chargeable transfer to see whether some or all of the nil rate band has been used up by gross chargeable transfers in the preceding seven-year period

Death tax:

- Death tax is payable if transferor dies within 7 years of making the transfer, subject to taper relief

Anti-avoidance

CFCs

- where a non-UK resident company is controlled by UK resident company
- aims to prevent UK groups moving income to low tax territories by charging UK tax on profits which have been moved to low tax territories
- Process:

1. Is it a 'Controlled' Foreign Company?
   UK ownership > 40%

2. Do any Exemptions apply?
   Profits < £500k, GPM < 10%, Overseas tax rate > 75% of UK rate, Excluded (good) territory, first 12m of being a CFC

3. Are there any Chargeable Trading profits which have been diverted from the UK?

4. Apportion Trading profits for the overseas activities which are managed from the UK

5. UK Corporate SHs owning >25% incur UK CT on CFC profit apportionment

Diverted Profits Tax (DPT)

- Targets NR companies who are operating in the UK without establishing a PE - 'Google tax'
- Also applies to UK resident companies and UK PEs which have 'tax mismatches' with NR associates
- The 'tax mismatch' (i.e. deduction without corresponding income) must be greater than 80%
- 25% tax charge on Diverted Profits
- Doesn't apply to companies with Rev <£10m and SMEs

Transfer Pricing (TP)

- Where large companies enter into transactions other than at arm's length such that one company gains a tax advantage

  e.g. if one group company in a high tax jurisdiction is buying at a high price from another group company in a low tax jurisdiction, then profits will be shifted to the low tax jurisdiction

- The company which gains a tax advantage is required to adjust its taxable profits by including an arm's length price

- The adjustment is called a TP adjustment

- An Advance Pricing Agreement (APA) can be agreed up front with HMRC to reduce need for adjustments