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SAMPLE - NOT FOR USE

Change Business Structure

Incorporation

- Change from unincorporated business (sole trader/partnership) to incorporated (company)
- Individual(s) transfers assets to company in exchange for shares in company
 1. Trade ceases for unincorporated business
 - Final trading profit/loss calculated for IT and NI
 - CA: BA or BC/succession election to transfer at TWDV as connected person
 - Inventory: trading profit/election to transfer at cost
 - Overlap profits deducted from profits
 - Unincorporated loss options:
 - Consider TLR
 - Consider loss c/f against future income from company
 2. Assets transferred to company
 - CGT on L&B, P&M, IFAs (including GW)
 - Gains automatically deferred under IR if:
 - All assets (except cash) transferred
 - Business is a going concern
 - Any cash received is taxable now
 - Can retain L&B to avoid SDLT and future gains in company
 - IR not available as not all assets transferred but can claim GR on other assets
 - Consider not claiming deferral relief if BADR won't apply on future share sale
 - Property business: IR applies if spends 20 hours per week on business
 - No BADR on disposal of GW to a close company if individual owns 5% of shares
 - VAT: TOGC if GW is transferred so no VAT charged on L&B/Inventory
 - Company must OTT buildings which are new (<3yrs) or OTT
 - Company continues with CGS adjustments
 - SDLT: L&B
 - Property business:
 - Multiple dwellings relief: non-residential rates if ≥ 6 properties transferred
 - No SDLT if spouse/parent and child partnership incorporated
 3. Company starts trading
 - New AP for CT
 - CA claimed on MV if no succession election
 - Amortisation on IFAs deductible (except GW)

CGT

- Consider if exempt / not a chargeable asset
- Calculate gain
 - Base cost reduced by previously deferred gains – ROR, GR, IR, SFS (shares)
 - Gain increased by deferred/held over gains – HOR, EIS, Takeover (QCB)
- Identify reliefs
 - If the tax payable on the future disposal will be at the same rate as it would be taxed at now without the deferral relief, then claim the deferral relief as it has a cash flow benefit
 - If a tax rate reduction relief is available now but will not be available on the future disposal then it is better to not claim the deferral relief and pay tax on the gain now at a reduced rate
 - A tax rate reduction may be available now but not in the future if BADR/IVR conditions are met now but won't be met in the future
 - If a tax exemption is available now then it is better to not claim the deferral relief

CGT / IHT Interaction

	CGT		IHT			
Life Transfer	Exempt Asset	Reliefs	Exempt Asset	Reliefs	PET	CLT
	Cash	<u>Tax Deferral</u> ROR - trading asset disposal and reinvestment in trading asset	N/A	BPR - business assets/shares	NRB	NRB
	Cars	GR - trading asset/shares disposal			No LT	LT 20/25%
	ISA shares	GR - any asset disposal if LT IHT		APR - agricultural assets/shares	No DT if survives 7 years	No DT if survives 7 years
	QCB	EIS - any asset disposal and reinvestment in EIS shares			DT 40% reduced by TR, FIV relief	DT 40% reduced by TR, FIV relief, LT paid
	Chattels					
	<u>Transferee</u>	Disposal of asset could cause past gains previously deferred under the following to now become chargeable: ROR, GR, IR, EIS, gains on shares deferred following takeover (SFS)	<u>Transferee</u>			
	Spouse		Spouse			
	Charity		Charity			
			Political			
	Annual Exemption (AE)	<u>Tax Rate Reduction</u> BADR - trading assets/shares disposal IVR - Shares disposal	Annual/ Marriage Exemption (AE)			
		<u>Tax Exemption</u> PRR - residential property disposal SEIS - any asset disposal and reinvestment in SEIS shares	Payments made from income			
Death Transfer	Death is not a disposal for CGT so no tax to pay Recipient's base cost is uplifted to value at death Death has optimal outcome for CGT		<u>Exempt Transferee</u> Spouse Charity Political	Reliefs BPR - business assets/shares APR - agricultural assets/shares RNRB - Residential property QSR - IHT in last 5 years Reduced rate (36%) - 10% to charity	Death Estate NRB/RNRB DT 40%	

Reliefs

Tax Deferral Reliefs

- Tax deferral reliefs have a cash flow benefit but do not reduce tax payable as the gain is just deferred until a future disposal

Rollover Relief (ROR)

- Disposal of trading asset and replacement with new trading asset
 - Applies to disposal of:
 - L&B and P&M used in unincorporated trading business
 - Goodwill
- Replacement trading asset can be purchased one year before disposal/3 years after
- Any proceeds not reinvested are taxable now
- Gain on the old asset reduces base cost of the new asset
- When new asset is sold, gain will be higher as the base cost is lower
- HOR if new asset is depreciating asset (UEL <60 years); gain held over for maximum of 10 years

Gift Relief for Business Assets (GR)

- Gift of business assets or shares
 - Applies to disposal of:
 - Trading assets used in unincorporated trading business (L&B, P&M, GW)
 - Shares in donor's trading company (5% of shares and voting rights)
 - Shares (unquoted) in a trading company
- Treat company as non-trading if >20% of turnover/assets/staff relate to non-trading
- Gift amount reduces the gain chargeable now and the base cost of the assets/shares
- When donee sells asset/shares, gain will be higher as the base cost is lower
- Restriction when shares are transferred to exclude non-trading/investment assets
 - GR: Chargeable assets used in business / Total chargeable assets

Gift Relief when IHT due

- Special type of GR when there is a lifetime IHT charge on asset (CLT)
 - Applies to disposal of:
 - All assets where there is a lifetime IHT charge
- Gift amount reduces the gain chargeable now and the base cost of the assets/shares
- Still applies when IHT payable is nil due to AE, NRB or BPR/APR

Incorporation Relief (IR)

- Unincorporated business transferring assets to company
 - Applies to disposal of:
 - Sole trader/Partners transferring assets to company in exchange for shares
 - Going concern
 - All assets transferred (except cash)
- Gains on old assets reduce base cost of the shares
- When shares are sold, gain will be higher as the base cost is lower

- Leases
 - Disposal of a lease is a chargeable gain
 - If any benefit reverts to the person disposing of the lease then it is a part disposal
 - Base cost adjusted by: $A/A+B$ as with any part disposal
 - A = Value of part sold
 - B = Value of part retained (reversionary interest)
 - A lease being sold which has <50yrs left to run has had its base cost wasted down
 - Base cost adjusted by: number of years left %/number of years at acquisition %

Years	%	Years	%	Years	%
50	100	33	90.28	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.33	13	56.167
46	98.49	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.1	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.77	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.47	0	0

- A grant of a short lease (<50yrs) causes part of the premium paid to be treated as rent
 - Premium deemed to be rent: $\text{Premium} \times (50 - \text{lease years} - 1) / 50$
 - Lessor:
 - Rent and deemed rent taxed as property income
 - Remainder of premium taxed as CGT proceeds
 - Capital allowances claimed on asset
 - Lessee:
 - Deemed rent deductible from trading income over the lease term
 - Base cost for future disposal is premium minus deductions from trading
 - Rent, depreciation and interest deductible

Chargeable Lifetime Transfer (CLT)

- Discretionary trust
- NQ IIP trust

CLT			
Lifetime			
Value of transfer		X	Fall in value of transferor estate
Reliefs		(X)	APR/BPR
AE		(X)	AE b/f if not used in PY
Chargeable transfer		X	
NRB	£325k		
Gross Chargeable Transfers (GCT) made in 7 years before gift	(x)		GCT: transfer value AND IHT paid by transferor (LT IHT on CLT) Chargeable transfers only - PETs not chargeable until death
NRB available		(X)	
		X	
IHT@20/25%		X	25% if transferor pays - this increases the GCT
GCT		X	Transferor has given asset AND paid the IHT
On Death (dies within 7 years of gift)			
GCT		X	Above
BPR/APR withdrawn		X	BPR/APR withdrawn if transferee not using asset (or replacement) for business/agricultural use
Reliefs		(X)	Fall in value of asset since transfer
Chargeable transfer		X	
NRB	£325k		Higher if spouse died without using their NRB
GCT made in 7 years before gift	(x)		GCT: transfer value AND IHT paid by transferor PETs now chargeable as transferor died
NRB available		(X)	
		X	
IHT @ 40%		X	
Taper relief		(X)	Survived 3-7 years since LT gift (HTT)
Lifetime tax (LT) paid		(X)	Above
IHT payable		X	

CORPORATION TAX

AREA	TOPIC	CLASS	QUESTIONS	ICAEW Workbook
UK	R&D	CT: Advanced Topics	D16 Q1 (Q27.1) S17 Q3 (Q38.1 – Issue 1) S19 Q1 (Q51.1)	Ch10 p321-326
	IFA	CT: Advanced Topics	D16 Q1 (Q27.1) S17 Q3 (Q38.1 – Issue 3)	Ch10 p326-330
	Patent Box	CT: Advanced Topics		
	Leases	Leases		
	Losses and Groups	Losses, Groups and Consortia		
	Close Companies	Close Companies		
INTERNATIONAL	Structure (PE v Sub)	Structure		
	PE Incorporation	PE Incorporation and Migration		
	Migration	PE Incorporation and Migration		
	Anti-Avoidance	Anti-avoidance		