Answers

1 Drench, Hail Ltd and Rain Ltd

(a) To The files
From Tax senior
Date 9 December 2011
Subject Acquisition of Rain Ltd and other corporate matters

(i) Acquisition of Rain Ltd

A comparison of the tax implications for Rain Ltd and Hail Ltd depending on whether Rain Ltd is acquired by Drench personally or by Hail Ltd is set out below.

Rain Ltd acquired by Drench personally

Assuming Rain Ltd does not obtain the new contracts and realises a loss

Before taking account of any loss relief, Rain Ltd will have taxable total profits as set out below.

	£
Chargeable gain on disposal of quoted shares	16,000
Degrouping charge (note 1)	34,750
Taxable total profits	50,750

Offsetting the current period loss against these taxable total profits would save corporation tax of £10,657 (£50,750 x 21% (note 2)).

The remaining loss of £24,250 would then be carried forward for offset against Rain Ltd's future profits of the same trade.

Notes

1 Degrouping charge

The purchase of Rain Ltd (by Drench or Hail Ltd) will result in a degrouping charge in the nine months ending 30 June 2012 as set out below. This is because Rain Ltd will leave the Flake Ltd group within six years of acquiring the building from Mist Ltd whilst still owning the building.

	£
Market value at the time of the no gain, no loss transfer on 1 July 2008	260,000
Less: cost to Mist Ltd	(170,000)
indexation allowance (£170,000 x 0·325 ((216·5 – 163·4)/163·4))	(55,250)
Degrouping charge	34,750

2 Associates

Rain Ltd's upper and lower limits for the purposes of calculating the rate of corporation tax payable in the nine months ending 30 June 2012 will be divided by four because Rain Ltd will be associated with Hail Ltd (because they will both be controlled by Drench) and Flake Ltd and Mist Ltd (the two remaining companies in the Flake Ltd group) at some time during this accounting period. The limits will then be multiplied by 9/12 as it will be a nine-month accounting period. Accordingly, the limits will be:

Upper limit £281,250 (£1,500,000 x ¼ x 9/12)
Lower limit £56,250 (£300,000 x ¼ x 9/12)

Assuming Rain Ltd does obtain the new contracts and is profitable

The corporation tax liability of Rain Ltd

	£
Trading profit	285,000
Chargeable gain on disposal of quoted shares	16,000
Degrouping charge	34,750
Taxable total profits	335,750
Corporation tax at 28% (taxable total profits exceed the upper limit)	94,010

Corporation tax payment date

Rain Ltd will pay corporation tax at the main rate if the new contracts are obtained. However, it will not need to pay its corporation tax liability in instalments as it did not pay tax at the main rate in the previous accounting period (it had no income or chargeable gains). Accordingly, its liability will be due by 1 April 2013 (within nine months and one day of the end of the accounting period).

Rain Ltd acquired by Hail Ltd

Assuming Rain Ltd does not obtain the new contracts and realises a loss

The loss reliefs available where Rain Ltd is acquired by Drench, as set out above, would also be available in this situation.

In addition, there would be the possibility of surrendering some of the current period loss to Hail Ltd in the form of group relief. The maximum surrender would be £50,000 (6/9 x £75,000) in respect of the period from 1 January 2012 to 30 June 2012. This is less than Hail Ltd's taxable total profits for the corresponding six-month period of £120,000 (£240,000 x 6/12).

Hail Ltd has budgeted taxable total profits of £240,000. It will have one associated company (Rain Ltd) in the accounting period such that its upper and lower limits will be £750,000 and £150,000 respectively. The limits for Rain Ltd will be £281,250 and £56,250, as set out in note 2 above.

Accordingly, the surrender of losses to Hail Ltd will save corporation tax at the marginal rate. The tax saved will be £14,875 (£50,000 x 29·75%).

The remainder of the loss can then be offset against the taxable total profits of Rain Ltd. This will save further corporation tax of £5,250 (£25,000 x 21%).

Any amount paid or received in respect of the surrender of group relief losses is ignored for the purposes of corporation tax.

Assuming Rain Ltd does obtain the new contracts and is profitable

If Rain Ltd obtains the new contracts and is profitable, it will make no difference whether it is acquired by Drench personally or by Hail Ltd. Accordingly, the corporation tax liability of Rain Ltd and the date on which the corporation tax is payable will be £94,010 and 1 April 2013 respectively, as set out above.

(ii) Loan to Drench and value added tax (VAT) cash accounting scheme

The tax implications for Hail Ltd of the proposed loan from Hail Ltd to Drench

This will be a loan from a close company (Hail Ltd is controlled by Drench) to a participator, or shareholder, in that company. Accordingly, Hail Ltd will be required to pay HM Revenue and Customs £4,500 (25% x £18,000) on 1 April 2013. HM Revenue and Customs will repay the £4,500 to the company nine months after the end of the accounting period in which the loan is repaid.

The loan will also give rise to an annual employment income benefit for Drench of £720 (£18,000 x 4%). Hail Ltd will be required to pay class 1A national insurance contributions of £92 (£720 x 12·8%) in respect of the loan benefit. The national insurance contributions will be allowable when computing the company's taxable trading profits.

VAT cash accounting scheme

The advantages of the scheme are:

- Cash flow is likely to be improved because output tax in respect of credit sales is not paid to HM Revenue and Customs until the customer has paid the invoice.
- Where a customer fails to pay an invoice, the related output tax is never paid to HM Revenue and Customs. This amounts to an automatic relief for impairment losses (bad debts).

The cash accounting scheme is only available to businesses with annual vatable supplies (exclusive of VAT) of no more than £1,350,000. Accordingly, if Rain Ltd acquires the new contracts, such that its sales revenue will be £1,425,000 in a nine-month period, it will not be able to join the scheme.

It should also be noted that a business cannot operate the scheme unless its VAT returns and payments are up to date and it has not been convicted of a VAT offence or found guilty of evasion of VAT.

(b) Briefing note – Confidentiality

- Confidentiality is one of the fundamental principles of ethics on which we should base our professional behaviour, as set out in ACCA's *Code of Ethics and Conduct*.
- We are obliged to refrain from using confidential information, acquired as a result of our professional and business relationships, to our own advantage or to the advantage of third parties.
- This principle of confidentiality continues to apply even where we have ceased to act for a client.
- Accordingly:
  - We should not use any confidential documentation relating to our ex-client to assist Rain Ltd.
  - We are permitted to use the experience and expertise gained from advising our ex-client.

2 Mirtoon

(a) Mirtoon's financial position

	£
Proceeds from sale of home	850,000
Capital gains tax in respect of sale of home (W1)	(6,200)
Capital gains tax in respect of agricultural land (W2)	(16,184)
Proceeds from sale of business assets	14,000
Income tax relief in respect of trading losses (£39,820 – £19,390) (W3)	20,430
Total after tax proceeds	862,046

Workings

1 Capital gains tax in respect of the sale of the house

	£
Sale proceeds	850,000
Less: Cost	(540,000)
Capital gain	310,000
Capital gain in respect of business use (£310,000 x 20%) (note 1)	62,000
Capital gains tax (£62,000 x 10%) (note 2)	6,200

Notes

1. The capital gain on the disposal of an individual's principal private residence is exempt from tax. However, where part of the house has been used exclusively for business purposes an equal proportion of the gain is subject to tax.
2. The gain in respect of the business use of the house will qualify for entrepreneurs' relief. The relief is available because the house will be in use for the purposes of the business at the time at which the business ceases, the business has been owned for at least one year and the disposal will be within three years of the date of cessation. Accordingly, the rate of tax is 10%.

2 Capital gains tax arising in respect of agricultural land

	£
Capital gain held over is subject to tax in 2011/12 (note 1)	72,000
Less: Capital losses (note 2)	(4,100)
Annual exemption (note 2)	(10,100)
	57,800
Capital gains tax (£57,800 x 28%) (note 3)	16,184

Notes

1. Where an individual becomes non-resident and non-ordinarily resident within six years of receiving a gift in respect of which gift relief was claimed, the capital gain held over will become subject to capital gains tax immediately prior to his/her departure from the UK. Accordingly, the held over gain on the agricultural land will become chargeable in January 2012 and will be taxed in the year 2011/12.
2. The capital losses and the annual exemption can be deducted from Mirtoon's capital gains in the most tax-efficient manner. Accordingly, they will be deducted from gains that would otherwise be taxed at 28%.
3. The taxable interest income in 2011/12 together with the capital gains qualifying for entrepreneurs' relief will clearly exceed the basic rate band such that all other capital gains will be taxed at 28%.

3 Income tax relief in respect of trading losses

	£
Loss in the year ended 30 June 2011	20,000
Loss in the six months ending 31 December 2011	17,000
Overlap relief	7,600
Loss for the tax year 2011/12 (note 1)	44,600

Income tax liability for 2010/11

	Original	Loss relief
	£	£
Trading income	90,000	90,000
Interest income (£22,600 x 100/80)	28,250	28,250
Loss relief		(44,600)
Net income after loss relief		73,650
Personal allowance (note 2)	–	(6,475)
Taxable income	118,250	67,175
Taxable income – no loss relief		
£37,400 x 20%	7,480	
£80,850 (£118,250 – £37,400) x 40%	32,340	
Taxable income – after loss relief		
£37,400 x 20%		7,480
£29,775 (£67,175 – £37,400) x 40%		11,910
Income tax liability	39,820	19,390

Notes

1. The basis period for 2011/12 runs from the end of the basis period for the previous tax year until the date of cessation, i.e. from 1 July 2010 until 31 December 2011. The loss will be increased by the unrelieved overlap profits.
2. An individual's personal allowance is reduced by £1 for every £2 by which adjusted net income exceeds £100,000. Accordingly, with adjusted net income of £118,250, Mirtoon will have no personal allowance.

Tutorial note: *The interest income does not fall within the starting rate limit. Accordingly, there is no need to distinguish between the trading income and the interest income when computing the income tax liability as the rates of income tax will be the same.*

(b) Firm's address

Mirtoon's address

9 December 2011

Dear Mirtoon

Departure from the UK

I set out below our advice in respect of the value added tax (VAT) consequences of your cessation of business and the tax implications of your departure from the UK.

(i) VAT on the cessation of your business

You must notify HM Revenue and Customs of the cessation of your business within 30 days of your ceasing to make taxable supplies, i.e. by 30 January 2012. You may be charged a penalty if you fail to do so.

You should charge VAT on any machinery and inventory that you sell whilst still registered for VAT. When you deregister you will need to account for output tax on all business assets that you still own in respect of which you have previously recovered input tax. There is no need to account for this output tax if it is less than £1,000.

(ii) Liability to UK income tax and capital gains tax whilst living in Koro

When you leave the UK you will become non-resident and non-ordinarily resident from the day after the day of your departure. This is because you are leaving the UK under a full-time contract of employment for at least a complete tax year with no intention of visiting the UK whilst you are living in Koro.

Income tax

Generally speaking, UK source income is subject to income tax regardless of the residence status of the individual. However, where you are non-UK resident for a complete tax year your liability on your bank interest will be limited to the tax deducted at source. Further, because you will be non-ordinarily resident, by declaring your tax status to the bank you will be able to receive future interest gross, without deduction of tax such that you will not suffer any UK tax on your bank interest.

Whilst you are non-UK resident you will not be subject to UK income tax on any of your overseas income.

Capital gains tax

Individuals who are neither resident nor ordinarily resident in the UK for a complete tax year are not subject to UK capital gains tax. However, temporary non-residents who realise capital gains whilst outside the UK in respect of assets owned at the time of their departure from the UK are subject to capital gains tax in the tax year of their return to the UK.

You will be regarded as a temporary non-resident if you live in Koro for less than five full tax years. This is because you have been resident in the UK for at least four of the seven tax years prior to leaving the UK.

Accordingly, if you return to the UK before 5 April 2017 any gains you make whilst living in Koro in respect of assets you owned when you left the UK, for example your agricultural land, will be subject to UK tax on your return to the UK.

Tutorial note: *Candidates were not expected to consider the detailed rules concerning the situation in the tax year of departure. However, additional credit was available to those who did.*

(iii) Inheritance tax planning

I summarise below the inheritance tax anti-avoidance rules you will need to be aware of when we discuss your inheritance tax planning ideas.

Associated operations

A scheme involving a series of transactions that seeks to reduce the value of a gift may be caught by the rules relating to associated operations. The definition of associated operations is quite broad but may be summarised as:

- two or more operations which affect the same property; or
- where one operation is carried out by reference to a second operation or in order to enable the second operation to be carried out.

Where the rules apply, the series of transactions will be regarded as a single gift at the time of the final transaction in the series such that the total value transferred will be subject to tax.

Gifts with reservation

A donor of a gift who retains some interest in the asset transferred may be caught by the rules concerning gifts with reservation. A gift with reservation occurs where:

- possession and enjoyment of the property is not genuinely obtained by the donee; or
- the property given is not enjoyed virtually to the entire exclusion of the donor.

A gift will not be treated as a gift with reservation where:

- the donor gives full consideration for the benefit retained; or
- in respect of a gift of land, the donor is an elderly or infirm relative of the donee and, due to an unforeseeable change in circumstances, there is a need for a benefit to be provided to the donor in the form of care and maintenance.

Where the rules apply:

- if the reservation is removed in the seven years prior to the death of the donor, the asset will be treated as having been gifted at the time the reservation is removed;
- if the reservation is not removed prior to the donor's death, the asset will be included in the donor's death estate at its value as at the time of death.

Provisions exist to ensure that the gift of the asset is not taxed twice, for example, at the time of the original gift and again at the time of death.

Please do not hesitate to contact me if you require any further information.

Yours sincerely

Tax manager

3 Morice and Babeen plc

(a) Approved SAYE scheme

Whether or not the proposed rules will be acceptable for an approved SAYE scheme

The investment period of five years and the minimum monthly investment limit of £5 are acceptable.

The maximum monthly investment limit for an approved scheme is £250.

It is not acceptable to have a minimum age requirement.

It is not acceptable to exclude part-time employees.

It is acceptable to exclude employees who have worked for the company for less than a qualifying period, provided that the period chosen does not exceed five years.

The price at which shares are offered under the scheme must be not less than 80% of the market value of the shares at the time the option is granted. Accordingly, the price proposed of £2·48 will only be acceptable if the value of a share on 1 January 2012 is no more than £3·10 (£2·48/80%).

Illustrative example – approved SAYE scheme

Grant and exercise of share options

There is no tax liability in respect of the grant and exercise of the share options.

Receipt of the bonus

There is no tax liability in respect of the receipt of the bonus.

Sale of shares

There will be a capital gain on the sale of the shares as set out below.

	£
Proceeds (6,139 (note) x £4·00)	24,556
Less: cost (6,139 x £2·48)	(15,225)
Gain	9,331

Note

The total amount invested will be £15,225 ((12 x £250 x 5) + (0·9 x £250)). The number of shares purchased will be 6,139 (£15,225/£2·48).

Entrepreneurs' relief will not be available as the employee will not own 5% of the company's ordinary share capital. The gain will be reduced by the annual exempt amount (currently £10,100). Accordingly, there will be no tax liability where an employee has at least £9,331 of their annual exempt amount available for the tax year 2016/17.

Where the employee has other gains in the tax year such that the total gains exceed the employee's available annual exempt amount, the excess will be subject to capital gains tax. The rate of tax depends on the employee's level of taxable income. Capital gains tax will be charged at 28% if the individual's taxable income exceeds the income tax basic rate band of £37,400. Where the individual's taxable income is less than £37,400, the amount of the gain that falls within the basic rate band will be taxed at 18% with the balance being taxed at 28%.

There are no national insurance implications in respect of an approved SAYE scheme.

(b) Income tax and national insurance implications for the employees of Babeen plc

(i) Medical care scheme

The cost to the company of providing the health insurance of £470 will be a taxable benefit for each P11D employee.

There is no taxable benefit where the total low-interest loans to an employee do not exceed £5,000. Where an employee's total low-interest loans exceed £5,000, there will be a taxable benefit equal to interest at the official rate of 4% on the amount outstanding. The benefit is calculated by reference to the average balance for the tax year but either HM Revenue and Customs or the taxpayer can choose to calculate the benefit by reference to the balance outstanding on a daily basis.

There are no national insurance implications for the employees in respect of the taxable benefits relating to either the health insurance or the loans.

(ii) Payments to employees for driving their own cars

The total amount paid to each employee in a tax year for driving on company business will need to be compared to the statutory mileage allowances of 40 pence per mile for the first 10,000 miles and 25 pence per mile thereafter.

- Where the amount paid is more than the statutory amount, the excess is subject to income tax.
- Where the amount paid is less than the statutory amount, the shortfall is an allowable deduction when computing an employee's taxable employment income.

There will be no national insurance implications regardless of the mileage driven as the amount per mile is less than 40 pence.

The amount paid for carrying a passenger will not be subject to income tax or national insurance contributions as it is less than the statutory maximum of five pence per mile. The shortfall of two pence per mile is not an allowable deduction when computing an employee's taxable employment income.

4 Surfe

(a) (i) Capital gains tax

A capital gain will arise on the gift of the shares to the trustees by reference to the market value of the shares. Gift relief will be available because the gift is a chargeable lifetime transfer for the purposes of inheritance tax. The gift relief election should be signed by Surfe and submitted by 5 April 2016 (within four years of the end of the tax year of the gift).

Capital gains made by the trustees whilst they are managing the assets of the trust will be subject to capital gains tax. The tax will be paid out of the trust assets.

A capital gain will arise on the transfer of trust assets from the trustees to Surfe's nephews by reference to the market value of the trust assets. Gift relief will be available because the transfer is immediately chargeable to inheritance tax. The gift relief election should be signed by the trustees and the recipient nephew and submitted within four years of the end of the tax year in which the transfer occurs.

Tutorial note: *The detailed rules in connection with the calculation of capital gains tax payable by the trustees of a trust are not in the syllabus.*

(ii) Inheritance tax

It is assumed in the question that Surfe will die on 1 July 2014, i.e. within seven years of the gift of the shares and cash to the trust. Accordingly, the trustees will have to pay inheritence tax on the gift at 40% less the lifetime tax paid.

The trust will be subject to an inheritance tax charge every ten years. The maximum charge will be 6% (30% of the lifetime tax rate of 20%) of the value of the trust assets at the time of the charge.

The transfer of trust assets from the trustees to the beneficiaries will also result in a charge to inheritance tax. The maximum charge will be 6% (30% of the lifetime tax rate of 20%) of the value of the assets transferred.

The ten-yearly charges and the charges in respect of transfers of trust assets to beneficiaries are payable by the trustees, out of the trust assets.

Tutorial note: *The detailed rules in connection with the calculation of inheritance tax payable by the trustees of a trust are not in the syllabus.*

(b) Inheritance tax payable on Surfe's death on 1 January 2014

Gifts in the seven years prior to death

The gift on 1 February 2000 to the charity was an exempt transfer.

The gifts on 1 October 2011 to Surfe's nephews were reduced by the annual exemptions for 2011/12 and 2010/11. The potentially exempt transfer of £164,000 ((£85,000 x 2) – (£3,000 x 2)) will be covered by the nil rate band.

The gift of the shares to the trust on 1 January 2012

	£
Gross chargeable transfer (W1)	543,750
Nil rate band (W2)	(326,351)
	217,399
Inheritance tax at 40%	86,960
Less: Lifetime tax paid (W1)	(43,750)
	43,210

There will be no taper relief as the gift is less than three years prior to death.

The death estate on 1 July 2014

	£
House	1,400,000
Quoted shares	600,000
Shares in Leat Ltd (450 x £2,400 (note))	1,080,000
	3,080,000
Nil rate band (utilised by gift on 1 January 2012)	–
Inheritance tax at 40%	1,232,000

Note

Surfe's holding, including the related property held by the charity, will be 80% (45% + 35%).

Workings

1. **The gift to the trust on 1 January 2012**

	£
Value of Surfe's holding prior to the gift (650 x £2,000 (note))	1,300,000
Less: Value of Surfe's holding after the gift (450 x £2,000 (note))	(900,000)
	400,000
Cash	100,000
	500,000
Nil rate band	(325,000)
	175,000
Inheritance tax at 25% (Surfe is paying the tax)	43,750
Gross chargeable transfer (£500,000 + £43,750)	543,750

Note

The value per share of Surfe's holding is determined by reference to the number of shares she owns personally and any related property. Related property includes shares given by Surfe to a charity that the charity still owns. Accordingly, Surfe's holding prior to the gift, including related property, will be 100% (65% + 35%). Her holding after the gift, including related property, will be 80% (45% + 35%).

2. **Nil rate band on death**

	£
Nil rate band as at the date of death	325,000
Unused nil rate band of Flud ((£285,000 – £140,000) x £325,000/£285,000)	165,351
	490,351
Less: Amount utilised by the gifts on 1 October 2011	(164,000)
	326,351

5 Sperry Ltd group

(a) Minimisation of the corporation tax charge in respect of the chargeable gain of Byrd Ltd

In order to minimise the corporation tax payable in respect of the chargeable gain, the gain should be transferred to a company such that it will be taxed at a lower rate of corporation tax.

The whole or part of the gain can be transferred to any company/companies in the Sperry Ltd capital gains group consisting of Sperry Ltd and its 75% subsidiaries. Wahl Ltd is not in the capital gains group as it is not a 75% subsidiary of Sperry Ltd. Also, no part of the chargeable gain can be surrendered to Teton Inc as the company is neither UK resident nor carrying on a trade in the UK through a permanent establishment.

The rate of corporation tax payable by a company depends on the number of companies that are associated with it and its level of augmented profits (taxable total profits plus franked investment income).

Sperry Ltd controls the other four companies in the group. Accordingly, all five companies are associates for the purposes of calculating the upper and lower limits used to determine the rate of corporation tax payable; therefore, the upper limit for each associated company is £300,000 (£1,500,000/5) and the lower limit is £60,000 (£300,000/5).

The taxable trading profit of Byrd Ltd falls between the limits. If the chargeable gain remains with Byrd Ltd, the whole of the gain will also fall between the limits and will be taxed at the marginal rate of 29·75%.

The taxable trading profit of Sperry Ltd exceeds the upper limit, such that any amount of the chargeable gain that is transferred to that company will be taxed at the main rate of 28%.

The taxable trading profit of Neny Ltd of £35,000 is £25,000 below the lower limit. Accordingly, the first £25,000 of the gain transferred to Neny Ltd will be taxed at 21%. Any further amount transferred will be taxed at 29·75%.

Advice

The corporation tax charged in respect of the gain will be minimised if £25,000 of the chargeable gain is transferred to Neny Ltd and the remaining £25,000 is transferred to Sperry Ltd.

The elections must be submitted by 31 March 2014 (within two years of the end of the accounting period of Byrd Ltd in which the gain arose).

(b) Borrowings

Sperry Ltd will be entering into a non-trading loan relationship as the funds borrowed are to be used for a non-trading purpose. Interest payable and other debits relating to a non-trading loan relationship are netted off against non-trading loan relationship credits, for example, interest income. However, because Sperry Ltd has no interest income, it will have a non-trading loan relationship deficit.

The deficit can be:

- Offset against other income and chargeable gains of Sperry Ltd of the same accounting period.
- Offset against profits in respect of non-trading loan relationships of Sperry Ltd of the previous 12 months.
- Surrendered as group relief to companies within the same group relief group.
- Carried forward by Sperry Ltd and offset against future non-trading income and gains.

Sperry Ltd can choose how much of the deficit to relieve in each of the above ways; they are not all or nothing claims.

(c) Value added tax (VAT)

No group registration in place

With no group registration in place, Sperry Ltd is able to recover all of its input tax. It will charge VAT in respect of the management charge levied on Byrd Ltd.

Byrd Ltd is unable to register for VAT as it does not make taxable supplies. Accordingly, Byrd Ltd is unable to recover any of its input tax including that relating to the management charge.

Group registration in place

A group registration would treat the two companies as a single group entity for the purposes of VAT. Accordingly, Sperry Ltd would no longer charge VAT in respect of the management charge. In addition, because this single group entity would be making both taxable and exempt supplies, it would be partially exempt.

The single group entity would be able to recover the input tax directly attributable to its standard rated supplies together with 70% (the proportion of its total sales revenue represented by taxable supplies) of the input tax relating to its overheads. The remaining input tax would be irrecoverable, unless it fell within the *de minimis* limits in which case all of the group's input tax would be recoverable.

				Available	*Maximum*
1	**(a)**	**(i)**	Rain Ltd acquired by Drench personally		
			Rain Ltd makes tax adjusted loss		
			Degrouping charge	3·5	
			Upper and lower limits	1·5	
			Use of losses	2·5	
			Rain Ltd makes tax adjusted profit		
			Corporation tax liability	1·5	
			Corporation tax payment date	2	
			Rain Ltd acquired by Hail Ltd		
			Rain Ltd makes tax adjusted loss	5	
			Rain Ltd makes tax adjusted profit	0·5	
				16·5	15
		(ii)	Loan to Drench		
			Close company loan to participator	1	
			Payment to HMRC	2	
			Employment income benefit	2·5	
			Cash accounting scheme		
			Advantages	2	
			Conditions	2	
				9·5	8
			Appropriate style and presentation	1	
			Effectiveness of communication	1	
				2	2
	(b)		Confidentiality, one mark per relevant point	5	
				5	5
			Total		**30**

				Available	Maximum
2	**(a)**	Sale of home			
			Capital gain	0·5	
			Principal private residence relief	1	
			Capital gains tax	1·5	
		Agricultural land		2·5	
		Trading losses			
			Loss available for relief	2	
			Tax relief	4	
		Total proceeds net of tax adjustments		2	
		Explanatory notes (one mark each – maximum four marks)		4	
				17·5	17
	(b)	**(i)**	Requirement to deregister	1·5	
			Output tax	2	
				3·5	3
		(ii)	Status	2·5	
			Income tax	1·5	
			Capital gains tax	5	
				9	7
		(iii)	Associated operations	2·5	
			Gifts with reservation	5	
				7·5	6
	Approach to problem solving			1	
	Appropriate style and presentation			1	
	Effectiveness of communication			1	
				3	3
	Total				**36**
3	**(a)**	Scheme rules			
			Investment period and investment limits	1·5	
			Eligible employees	1·5	
			Share price	1·5	
		Illustrative example			
			Grant and exercise of option, receipt of bonus	1·5	
			Gain	1·5	
			Capital gains tax	3	
			National insurance contributions	1	
				11·5	10
	(b)	**(i)**	Health insurance	0·5	
			Interest-free loan	2·5	
			National insurance contributions	0·5	
		(ii)	Driving on company business		
			Income tax	2	
			National insurance contributions	1	
			Carrying passengers	1·5	
				8	7
		Total			**17**

				Available	Maximum
4	**(a)**	**(i)**	Gift of shares	1·5	
			Future sale of quoted shares	0·5	
			Transfer of trust assets to beneficiaries	1·5	
			Election details	1	
		(ii)	Inheritance tax	2·5	
				7	6
	(b)		Inheritance tax in respect of lifetime gifts		
			Gift to charity	0·5	
			Gifts to nephews	1·5	
			Gift to trust		
			Shares – fall in value	2	
			Cash and nil rate band	1	
			Lifetime tax	1	
			Gross chargeable transfer	0·5	
			Nil rate band	2·5	
			Inheritance tax payable on death	1·5	
			Inheritance tax in respect of death estate	1·5	
				12	11
			Total		**17**
5	**(a)**		Potential group members	2	
			Associates and tax rates	1	
			Position of each company	2·5	
			Advice	1	
			Date of election	1	
				7·5	7
	(b)		Treatment of interest	2	
			Use of deficit	3	
				5	4
	(c)		No group registration in place	2	
			Group registration in place		
			Single entity	2	
			Recovery of input tax	2·5	
				6·5	6
			Total		**17**