Answers

1 Calisia

Prepared by A. N. Taxadviser
Date 6 June 2011
Subject Farfisa – Additional income
Calisia – Inheritance tax

(a) Farfisa – Additional income

Additional income required

	£
Salary	28,000
Income tax ((£28,000 – £6,475) x 20%)	(4,305)
Class 1 national insurance contributions ((£28,000 – £5,715) x 11%)	(2,451)
	21,244
Estimated expenditure (£2,500 x 12)	30,000
Additional income required	8,756

The interest-free loan from Jelmini Ltd will not result in a tax liability because it is for less than £5,000.

(i) **Gift of shares quoted on the UK stock exchange**

If Farfisa were to be given shares resulting in dividend income of £8,756, her taxable income would remain below the higher rate threshold of £37,400 as set out below. There would be no income tax to pay on the dividend income as the tax liability will be covered by the 10% tax credit.

	£
Salary	28,000
Dividend income (£8,756 x 100/90)	9,729
Personal allowance	(6,475)
	31,254

Accordingly, with a yield of 4%, Farfisa would need to own shares valued at £218,900 (£8,756/4%).

The gift would give rise to a capital gain calculated by reference to market value. Holdings in quoted companies do not qualify for gift relief, except in the case of an individual's personal trading company in which they own at least 5% of the voting rights.

Calisia has estimated that the gain on the shares will be one quarter of their market value, i.e. £54,725 (£218,900 x ¼).

Calisia is a higher rate taxpayer who uses her annual exempt amount every year. Accordingly, her capital gains tax liability would be £15,323 (£54,725 x 28%).

Stamp duty is charged on the amount of consideration paid. Accordingly, there would be no stamp duty on a gift of quoted shares.

(ii) **Sale of investment property followed by gift of proceeds**

	£
Proceeds	260,000
Less: disposal costs	(6,000)
cost	(90,000)
	164,000

Entrepreneurs' relief is available in respect of capital gains on furnished holiday accommodation. Accordingly, capital gains tax of £16,400 (£164,000 x 10%) would be due.

The gift of cash to Farfisa would be £237,600 (£260,000 – £6,000 – £16,400). This would give rise to gross interest of £7,128 (£237,600 x 3%).

Farfisa's taxable income would remain below the higher rate threshold of £37,400 as set out below. Accordingly, the interest income would be taxed at 20% and Farfisa's after-tax income would be £5,702 (£7,128 x 80%).

	£
Salary	28,000
Interest income	7,128
Personal allowance	(6,475)
	28,653

In addition to the interest income, Farfisa would require after-tax dividend income of £3,054 (£8,756 – £5,702) in order to meet her budgeted expenditure. There would be no income tax to pay on this dividend income as her taxable income will clearly still remain below the higher rate threshold (£37,400 – £28,653 = £8,747) such that the tax liability will be covered by the 10% tax credit.

Calisia's capital gains tax liability on the gift of the shares would be £5,344 (£3,054/4% x ¼ x 28%).

Calisia will not be liable to stamp duty land tax on the sale of the property as this would be payable by the purchaser of the property.

There would be no stamp duty on the gift of the shares.

(iii) Gift of investment property – rented out by Farfisa

The property qualifies as commercially let furnished holiday accommodation. Accordingly, gift relief would be available in respect of the capital gain and no capital gains tax would be payable.

Farfisa would pay tax on the rental income at 20%. Accordingly, her rental income, after tax, would be £4,080 (£5,100 x 80%).

In addition to the rental income, Farfisa would require after-tax dividend income of £4,676 (£8,756 – £4,080) in order to meet her budgeted expenditure. There would be no income tax to pay on this dividend income as her taxable income will clearly still remain below the higher rate threshold such that the tax liability will be covered by the 10% tax credit.

Calisia's capital gains tax liability on the gift of the shares will be £8,183 (£4,676/4% x ¼ x 28%).

Stamp duty and stamp duty land tax is charged on the amount of consideration paid. Accordingly, there would be no duty on either of the gifts.

(iv) Gift of investment property – lived in by Farfisa

If Farfisa were to live in the investment property she would not have to pay the rent of £550 per month. Also, she could rent out the spare room to generate additional income. Provided the room is furnished and the rent does not exceed £4,250, the rental income would not be subject to income tax.

As above in (iii), gift relief would be available in respect of the gain on the property.

	£
Additional income required	8,756
Less: Rental expenditure no longer incurred (£550 x 12)	(6,600)
	2,156
Minimum monthly rent required in respect of spare bedroom (£2,156/12)	180

There would be no stamp duty land tax on the gift of the property.

Summary

Capital gains tax payable by Calisia under each alternative:

(i) £15,323
(ii) £21,744 (£16,400 + £5,344)
(iii) £8,183
(iv) Nil

(b) Calisia – Inheritance tax

Explanation of inheritance tax liability on death

The amount subject to inheritance tax on Calisia's death (her taxable estate) will be the value of all of the assets she owns when she dies, including her home and any assets situated overseas (because she is domiciled in the UK) less certain deductions.

The following amounts will be deducted from the value of her assets in arriving at her taxable estate.

– The interest in the 'Therson Partnership' will be 100% relieved by business property relief provided the partnership carries on a qualifying business; this excludes dealing in securities and shares or land and buildings and the making or holding of investments. Calisia's share of the value of the partnership assets not used wholly or mainly for business purposes (i.e. investments) will not qualify for this relief.

– The building used by the 'Therson Partnership' will be 50% relieved by business property relief provided it is used wholly or mainly for the purposes of a qualifying business carried on by the partnership.

– Calisia will need to satisfy the minimum qualifying ownership period of two years in respect of her interest in the partnership and the building used by the partnership in order for business property relief to be available.

– The cost of administering or realising the property in the country of Sakura up to a maximum of 5% of the property's value will be deducted from the property's value.

– The legacy to the Fairness for All political party will be deducted only if it is a qualifying political party. A qualifying political party is one which has two elected members in the House of Commons or one member and at least 150,000 votes at the last general election.

– Liabilities due at the time of death, reasonable funeral costs and the cost of a tombstone are also deductible.

Because Calisia has made no lifetime gifts, there will be no tax on the first £325,000 (the nil rate band) of her estate. An additional deduction of £325,000 will also be available in respect of her husband's nil rate band as it was not used on his death.

Tax will be charged at 40% on the taxable estate.

Any inheritance tax suffered in the country of Sakura will be deducted from the UK inheritance tax liability up to a maximum of the UK inheritance tax on the Sakuran property. The UK inheritance tax on the Sakuran property will be calculated by determining the percentage, by reference to the market values, of Calisia's assets represented by the Sakuran property and applying that percentage to the total inheritance tax due.

Confirmations required

For business property relief, as set out above, to be available the following matters need to be confirmed:

– the partnership carries on a qualifying business
– Calisia satisfies the minimum qualifying ownership period.

2 Petzold

Firm's address

Petzold's address

6 June 2011

Dear Petzold

Glenz Ltd

I set out below the information you require to assist you in dealing with the company's cash flow problems.

(a) Glenz Ltd – Payments to the tax authorities

The payments that will be made by Glenz Ltd to the tax authorities in respect of the two, three-month periods ending 30 June 2011 and 30 September 2011 are calculated at appendix 1. The calculations are based on the budgeted figures provided by the company. In summary, the following payments will be due:

	Three months ending 30 June 2011	Three months ending 30 September 2011
	£	£
Value added tax (VAT)	30,250	29,590
Employer's national insurance contributions	9,160	9,160

Glenz Ltd's corporation tax liability for the year ended 31 March 2011 is £19,591 (see appendix 1). The limits used to determine the rate of tax paid by Glenz Ltd must be divided by five because you controlled five companies (Glenz Ltd and the four companies in the Clementi group) during the year. This reduces the lower limit to £60,000 (£300,000/5) such that Glenz Ltd is a marginal company paying tax at the main 28% rate less marginal relief.

The corporation tax is due on 1 January 2012.

(b) Glenz Ltd – Cash flow

(i) Your proposals to improve the company's cash flow position

Late payment of VAT

When the company submitted its return late for the three months ended 30 June 2010 it would have received a surcharge liability notice.

A late payment of VAT in respect of one of the subsequent four quarters will result in a penalty of 2% of the VAT payable and an extension of the 12-month surcharge period. Accordingly, if Glenz Ltd's payment for the three months ending 30 June 2011 is made late, there will be a penalty of £605 (£30,250 x 2%).

The penalty for a second late payment within the surcharge period is 5% of the VAT payable. Accordingly, there will be a further penalty of £1,479 (£29,590 x 5%) if the payment for the three months ending 30 September 2011 is also late and the surcharge period will be extended again to include the following four quarters, i.e. to 30 September 2012.

The surcharge liability period will only end when four consecutive quarterly returns have been submitted on time and any VAT due has been paid on time. The penalties for a third and subsequent defaults are 10% and 15% respectively of the VAT payable.

Tutorial note: *Although the new rules for late filing of VAT returns and late payment of VAT (which are due to replace the default surcharge rules) were not examinable, credit was given to candidates who applied these new rules.*

Retention of the tax refund

I suggest that we carry out a review of the company's tax affairs in order to identify the reason for the tax refund. If, as you suspect, it is an error it should be repaid immediately. You may well be committing a civil and/or a criminal offence if you fail to return the money in these circumstances. Immediate voluntary disclosure is advisable in order to minimise any interest and penalties that may otherwise become payable.

In addition, unless you return the money, we would have to consider ceasing to act as your advisers. In these circumstances we are required to notify the tax authorities that we no longer act for you, although we would not provide them with any reason for our action.

(ii) Sale of the warehouse

Chargeable gain

The chargeable gain on the sale of the warehouse would be £83,580 (appendix 2). This would be subject to corporation tax in the year ending 31 March 2012 unless it is relieved via rollover relief.

Rollover relief would be available if qualifying assets were purchased for use in the business within the period beginning one year prior to the sale and ending three years after the sale. Qualifying assets include land and buildings and fixed plant and machinery.

In order for the whole of the gain to be relieved you would need to reinvest the whole of the sale proceeds in qualifying assets. Otherwise, there would be a chargeable gain equal to the amount of proceeds not reinvested subject to a maximum of £83,580.

Where rollover relief is claimed in respect of a purchase of land and buildings, the gain relieved is deducted from the cost of the new asset. This will increase the gain on a future disposal of the replacement land and buildings. Where the claim is in respect of a purchase of fixed plant and machinery, the gain relieved is charged at a future date. That future date is the earliest of: the date on which the plant and machinery is sold, the date on which it ceases to be used in the business and ten years after the date of purchase.

Rent paid

The rent paid following the sale of the warehouse would be a tax-deductible expense when calculating the company's corporation tax liability. Accordingly, there would be a tax deduction in the year ending 31 March 2012 of £16,500 (£22,000 x 9/12).

Please contact me if you require any further information.

Yours sincerely

Tax Manager

Appendix 1

Glenz Ltd – Payments to the tax authorities

Value added tax (VAT)

Glenz Ltd does not satisfy the partial exemption annual test as it was unable to recover all of its input tax in the year ended 31 March 2011. However, it can still provisionally recover all of its input tax in any quarter of the current year in which it passes the *de minimis* test.

	Three months ending 30 June 2011
	£
Output tax (£360,000 x 20%)	72,000
Recoverable input tax (£40,000 + £950 + £800) (note 2)	(41,750)
Amount payable to HMRC	30,250

	Three months ending 30 September 2011
	£
Output tax (£365,000 x 20%)	73,000
Recoverable input tax:	
Attributable to taxable supplies	(42,000)
Non-attributable (£1,500 x 94%) (notes 3, 4 and 5)	(1,410)
Amount payable to HMRC	29,590

Notes

1 Partial exemption simplified test 1 is clearly not satisfied in either quarter, as total input tax incurred exceeds £625 per month on average.

2 Partial exemption simplified test 2 will be satisfied in the quarter ending 30 June 2011 because:

Total input tax less that directly attributable to taxable supplies does not exceed £625 per month on average ((£41,750 – £40,000)/3 = £583); and

The value of exempt supplies does not exceed 50% of the value of all supplies (£24,500/(£360,000 + £24,500) = 6·4%).

Accordingly, Glenz Ltd can provisionally recover all of its input tax.

3 Partial exemption simplified test 2 will not be satisfied in the quarter ending 30 September 2011 because:

Total input tax less that directly attributable to taxable supplies exceeds £625 per month on average ((£45,700 – £42,000)/3 = £1,233).

4 Exempt input tax of £2,290 (£2,200 + (£1,500 – (£1,500 x 94% (note 5)))) exceeds £625 per month (main test) and is therefore not *de minimis*.

5 Glenz Ltd's taxable supplies represent 93·97% (£365,000/(£365,000 + £23,400)) of its total supplies. This figure is rounded up to 94% for the purpose of calculating recoverable input tax.

Tutorial note: *Full credit was given to candidates who used the main test rather than simplified test 2 to determine that the company would be de minimis in the period ending 30 June 2011.*

Employer's Class 1 national insurance contributions

	£
Average annual liability per employee ((£332,000/8 – £5,715) x 12·8%)	4,580
Quarterly liability for eight employees (£4,580 x 3/12 x 8)	9,160

Corporation tax liability for the year ended 31 March 2011 – due on 1 January 2012

	£
Corporation tax at the main rate £83,500 x 28%	23,380
Less: Marginal relief ((£1,500,000/5 – £83,500) x 7/400)	(3,789)
	19,591

Appendix 2

Chargeable gain on sale of warehouse

	£
Proceeds	330,000
Less: cost	(180,000)
indexation allowance (£180,000 x 0·369 (235·5 – 172·0)/172·0))	(66,420)
	83,580

3 Faure

(a) The advantage of a 30 June year end

The business is expected to make a loss in the 12-month trading period ending on 30 June 2012. Where the business adopts a 30 June year end this 12-month period will be the basis period for the first two tax years: 2011/12 (1 July 2011 to 5 April 2012) and 2012/13 (the first 12 months). Accordingly, there will be no taxable profits for the first two tax years.

If the business were to adopt a 31 March year end there would be a loss in the nine months ending 31 March 2012 resulting in no taxable profits in 2011/12. However, the year ended 31 March 2013 may produce a profit as it will consist of three months of loss and nine months of profit. This would result in a taxable profit in 2012/13.

Accordingly, the adoption of a 30 June year end is likely to delay the first tax year in which the business makes a taxable profit rather than an allowable loss.

(b) Tax issues relating to the structure of the 'Bah-Tock' business

(i) Faure employs Ravel

The cost of employing Ravel will increase the loss made by the business. This cost will consist of Ravel's salary and the related employer's Class 1 national insurance contributions of (salary – £5,715) x 12·8%.

Faure

Faure will have a trading loss for 2011/12 and 2012/13 and will therefore have no income tax or Class 4 national insurance liability in respect of the business for those two years.

Faure will have to carry forward the whole of the tax-adjusted loss for relief against future profits of the same trade as she has no other sources of income against which to relieve it.

Faure will not have to pay Class 2 national insurance contributions until the accounting profit of the business exceeds £5,075.

Ravel

Ravel is currently a basic rate taxpayer such that the whole of his income tax liability is satisfied by the tax credits relating to his income. His salary from the business will be taxed in priority to his investment income and will displace the investment income from the starting rate and basic rate bands. The displaced investment income will become taxable at the higher rates of 40% for interest income and 32·5% for dividend income and will then be reduced by the related tax credits.

Ravel will also pay Class 1 national insurance contributions in respect of his salary of (salary – £5,715) x 11%.

(ii) Faure and Ravel are partners in the business

The tax adjusted loss will be split between the two partners in accordance with the profit sharing arrangements of the partnership.

The two partners will each have a trading loss for 2011/12 and 2012/13 and will therefore have no income tax or Class 4 national insurance liability in respect of the business for those two years.

Faure and Ravel will not have to pay Class 2 national insurance contributions so long as their income from the business is below the small earnings limit of £5,075.

Faure

Faure will carry forward her share of the loss as set out above.

Ravel

Ravel can choose to offset his share of the loss against his total income:

– for the year of the loss and/or the previous year; or
– for the three tax years preceding the year of the loss on a first in-first out basis.

Where the loss is relieved against interest income Ravel will be able to recover the tax he has paid in respect of that income.

Where the loss is relieved against dividend income there will be no repayment as the 10% tax credit on dividends is not repayable.

Alternatively, Ravel could choose to carry forward the loss for offset against future profits of the same trade. Once the business is profitable Ravel is likely to be paying tax at the higher rates in the same way as he would if Faure were to employ him (see above). Accordingly, Ravel could increase the amount of tax saved by carrying the loss forward but this would delay obtaining relief for the loss.

Summary

If Faure employs Ravel the couple's total tax liability in 2011/12 and 2012/13 will increase even though the business will have made a loss.

If Faure and Ravel run the business as a partnership part of the loss will be available for relief against the income of Ravel. Ravel is able to claim loss relief either earlier or at a higher rate than Faure.

4 Capstan

(a) Transfer of a UK property to a discretionary trust

Inheritance tax

A lifetime transfer to any form of trust is immediately chargeable to inheritance tax.

	£
Market value of the property	425,000
Less: Annual exemptions for 2011/12 and 2010/11	(6,000)
	419,000
Nil rate band	(325,000)
	94,000
Inheritance tax at 25% (Capstan is paying the tax)	23,500

It has been assumed that:

– Capstan has made no other transfers of value in 2010/11 or in 2011/12 prior to 1 May 2011 such that there are two annual exemptions available.

– Capstan has made no chargeable lifetime transfers in the seven years prior to 1 May 2011 such that the whole of the nil rate band is available.

Since the transfer will take place between 6 April and 30 September 2011, the tax will be due on 30 April 2012. Inheritance tax on land and buildings can be paid by instalments but not where the tax is being paid by the donor.

Capital gains tax

Gift relief will be available on the transfer because the gift is immediately chargeable to inheritance tax. Accordingly, there will be no capital gains tax liability in respect of the transfer.

(b) Agraffe Ltd

A sale on 1 July 2011 will result in a withdrawal of the EIS income tax relief as the shares will have been held for less than three years. On the assumption that the sale is a bargain at arm's length the withdrawal of relief will be £4,000 (£20,000 x 20%).

There will also be a loss on the sale of the shares. However, when calculating the loss, the allowable cost of the shares will be reduced by the EIS relief obtained.

	£
Proceeds	20,000
Less: Cost (£32,000 – (£6,400 – £4,000))	(29,600)
Allowable loss	(9,600)

Capstan can offset the loss against his general income of 2011/12 and/or 2010/11 because the shares qualified for EIS relief. This is advantageous as Capstan will save income tax at 40% (he is a higher rate taxpayer) rather than capital gains tax at 28%.

There would be no withdrawal of EIS relief if Capstan were to sell the shares after 1 February 2012 as he would then have held them for three years. However, this would reduce the allowable loss on the sale by £4,000 (because the allowable cost would be £4,000 less) such that the tax saved via the offset of the loss would be reduced by £1,600 (40% x £4,000). The overall saving to Capstan would be £2,400 (£4,000 – £1,600).

The disadvantage of delaying the sale is that the value of the shares could continue to fall such that Capstan's financial loss would increase.

(c) Capstan's taxable capital gains for the tax year 2011/12

	£
Gain arising on sale of the Pinblock plc loan stock (W1)	4,224
Gain arising on the sale of the shares in Pinblock plc (W2)	56,265
	60,489
Less: Annual exempt amount	(10,100)
Taxable gains	50,389

Tutorial note: *Candidates who assumed in their answer to part (b) above that the loss arising on the sale of the shares in Agraffe Ltd would be set off against Capstan's capital gains were given full credit in this part of the question.*

Workings

1 Capital gain arising on sale of loan stock

The profit on the sale of the 7% Pinblock plc non-convertible loan stock will not be subject to capital gains tax because qualifying corporate bonds are exempt assets.

However, a gain will have arisen when the shares in Wippen plc were exchanged for the loan stock. This gain will become chargeable on the sale of the loan stock.

	£
Market value of loan stock on 1 October 2007	9,000
Less: Cost (£26,000 x (£9,000/(£40,000 + £9,000)))	(4,776)
Capital gain	4,224

2 Capital gain arising on the sale of shares in Pinblock plc

	£
Proceeds	69,000
Less: Cost (12,000/20,000 x £26,000 x (£40,000/(£40,000 + £9,000)))	(12,735)
	56,265

5 Loriod plc group

(a) The relief available in respect of the expected loss

Strategy A – Elivar Ltd purchases the trade and all of the assets of Syme Inc

The business in Kuwata would be an overseas permanent establishment of Elivar Ltd. The permanent establishment would be an extension of Elivar Ltd. Accordingly, because the overseas operations are to be controlled from the UK, the loss made in the year following the acquisition will be offset in calculating Elivar Ltd's trading income. If Elivar Ltd makes a trading loss, the overseas losses can be included in a group relief surrender to other group companies. Any unrelieved losses will be carried forward for relief against future profits of the same trade. The relief of the overseas losses will save UK corporation tax at 28%.

Strategy B – Elivar Ltd purchases the share capital of Syme Inc

Syme Inc would be a subsidiary of Elivar Ltd resident in Kuwata. It would be a separate legal entity and its losses would be subject to the tax regime of Kuwata. This will save tax in Kuwata at only 22% as opposed to the 28% relief available under strategy A. However, it may be possible for the loss generated by the 'Frager' business to be carried back for relief in earlier years in Kuwata if strategy B is adopted.

(b) Strategy A – 'Frager' business operated via a permanent establishment in Kuwata

Maximum loss to be surrendered to Elivar Ltd

The tax suffered in Kuwata of £28,600 (£130,000 x 22%) can be offset against the corporation tax liability of Elivar Ltd up to a maximum of the UK tax on the overseas income. Accordingly, in order not to waste double tax relief, the UK tax on the overseas profits must be at least £28,600.

In determining the UK tax on the profits of Elivar Ltd, the company can choose to offset the gift aid and the group relief in the most tax efficient manner. Accordingly, the gift aid and the group relief will be deducted first from the UK profits, reducing them to zero. It should then be used to reduce the overseas profits to the amount that results in the UK corporation tax being equal to the tax suffered in Kuwata.

The overseas profits in respect of the permanent establishment should not be reduced below £102,143 (£28,600/28%).

The maximum loss that should be surrendered to Elivar Ltd is set out below.

	£
In respect of:	
UK profits less gift aid (£90,000 – £2,000)	88,000
Overseas profits (£130,000 – £102,143)	27,857
	115,857

(c) Strategy B – 'Frager' business operated via a subsidiary

Transfer pricing

The rate of corporation tax in Kuwata is lower than that in the UK. Accordingly, the total tax paid by the group will be reduced if more of the group's profits are generated in Kuwata. This could be achieved by increasing the prices charged by the subsidiary in Kuwata.

The transfer pricing rules will apply to transactions between Elivar Ltd and its subsidiary in Kuwata because Elivar Ltd controls the subsidiary. The exemption for small and medium sized enterprises is unlikely to be available, regardless of the size of the Loriod plc group, as there is no double tax treaty between the UK and Kuwata.

Any reduction in Elivar Ltd's profits caused by paying inflated prices to the subsidiary in Kuwata would be regarded as a potential tax advantage. The transfer pricing rules would counteract such an advantage by requiring Elivar Ltd to calculate its taxable profits as if it had been charged arm's length prices by its overseas subsidiary.

Elivar Ltd could approach HMRC for confirmation that its pricing arrangements with its overseas subsidiary are acceptable in order to remove uncertainty in this area.

			Available	*Maximum*
1	(a)	Calculation of additional income required	3·5	
		Gift of shares		
		Tax on dividends	1·5	
		Capital gains tax	3·5	
		Sale of investment property followed by gift of proceeds		
		Capital gains tax on investment property	2·5	
		Farfisa's income position	3·5	
		Capital gains tax on transfer of shares	1·5	
		Gift of investment property – rented out by Farfisa		
		Gift relief available	1	
		Farfisa's income position	2	
		Capital gains tax on transfer of shares	1	
		Gift of investment property – to be lived in by Farfisa	2·5	
		Summary of capital gains tax payable	1	
		Stamp duty and stamp duty land tax	2	
			25·5	21
	(b)	Relevance of domicile	1	
		Calisia's home subject to tax	0·5	
		Business property relief	4	
		Cost of administering the property in Sakura	1	
		Political party	1·5	
		Funeral costs	0·5	
		Nil rate bands	1·5	
		Tax and double tax relief	2	
			12	10
		Appropriate style and presentation	1	
		Effectiveness of communication	1	
		Approach to problem solving	1	
			3	3
		Total		34

			Available	Maximum
2	**(a)**	VAT		
		Three months ending 30 June 2011	3	
		Three months ending 30 September 2011	3·5	
		Employer's national insurance contributions	2·5	
		Corporation tax		
		Calculations	1·5	
		Explanations	2·5	
			13	12
	(b)	Late payment of VAT		
		Explanation	3·5	
		Calculations	1·5	
		Retention of the tax refund	5	
		Sale of the warehouse		
		Chargeable gain	1·5	
		Rollover relief, assets and time period	2·5	
		Proceeds not reinvested	1·5	
		Manner of relief	2·5	
		Treatment of rent	1	
			19	16
		Appropriate style and presentation	1	
		Effectiveness of communication	1	
			2	2
		Total		**30**
3	**(a)**	30 June year end	2	
		31 March year end	2	
		Comparison	0·5	
			4·5	4
	(b)	**(i)** Faure employs Ravel		
		Effect on results of business	1	
		Class 1 national insurance contributions	1·5	
		Faure – income tax	2	
		Ravel – income tax	2·5	
		(ii) Faure and Ravel are partners in the business		
		Allocation of loss and no taxable income	1·5	
		Faure – use of loss	0·5	
		Ravel – use of loss		
		Alternatives available	2·5	
		Tax relief and timing	2·5	
		Class 2 national insurance contributions	1	
		Conclusion	1	
			16	14
		Total		**18**

			Available	*Maximum*
4	**(a)**	Inheritance tax		
		Explanations and assumptions	3·5	
		Calculations	2	
		Capital gains tax	1·5	
			7	6
	(b)	Withdrawal of EIS relief	2	
		Loss on sale	1·5	
		Offset of loss	1	
		Advantage of delay	2	
		Disadvantage of delay	1	
			7·5	7
	(c)	Sale of loan stock	3·5	
		Gain on sale of shares	1	
		Annual exempt amount	0·5	
			5	5
		Total		**18**
5	**(a)**	Use of permanent establishment	4	
		Use of subsidiary	3	
		Comparison	1	
			8	7
	(b)	Explanations		
		Double tax relief	2	
		UK tax on overseas profits	2	
		Calculations	2	
			6	5
	(c)	Impact of prices on total tax paid by the group	2	
		Transfer pricing		
		Why the rules apply	2	
		Application of the rules	1·5	
		HMRC confirmation of pricing arrangements	1	
			6·5	6
		Total		**18**