

Chapter 23

Answer to Example 1

Photo Plc

Corporation tax liability

FY 2021 £2M x 3/12 x 19% =	95,000
FY 2022 £2M x 9/12 x 19%(assumed) =	285,000
	<u>380,000</u>

All payable by instalments

This will be paid as follows:

£95,000	on	14 July 2022
£95,000	on	14 October 2022
£95,000	on	14 January 2023
£95,000	on	14 April 2023

In reality of course as the payments are based on an estimate of the current year's liability and the first payment is made in only the 7th month of the accounting period the amounts paid are likely to change at each payment date as that estimate is updated. Interest will be payable at 2.6% pa on any underpayments and will be receivable by the company at a rate of 0.5% on any overpayments. These amounts would be included within the Interest Income assessment on the Corporation Tax computation.

Chapter 24

Answer to Example 1

Chargeable Transfers

	20/11/15 PET	15/7/16 CLT	8/12/2020 PET
Transfer of value	40,000	405,000	184,000 (W1)
Less: Exemptions			
Marriage	(5,000)		
AE 2015/16	(3,000)		
AE 2014/15	(3,000)		
AE 2016/17		(3,000)	
AE 2020/21			(3,000)
AE 2019/20			(3,000)
	<u>29,000</u>	<u>402,000</u>	<u>178,000</u>

W1 Transfer of value

Before transfer (16,000 @ £25) =	400,000
After transfer (12,000 @ £18) =	<u>(216,000)</u>
	<u>184,000</u>

Lifetime Transfers Chargeable When Made

	£	Gross Transfers	IHT
15/7/2016 CLT	402,000	421,250	<u>19,250</u>
325,000 @ nil = nil			
<u>77,000 @ 25% = 19,250</u>			
<u>402,000</u>			

Lifetime Transfers Chargeable on Death – April 1, 2022

	<i>Gross Transfers</i>	<i>IHT</i>
20/11/2015 PET	29,000	nil
15/7/2016 CLT	<u>421,250</u>	50,100
Available nil rate band (325,000 - 29,000) = 296,000		
296,000 @ nil = nil		
<u>125,250 @ 60% = 50,100</u>		
<u>421,250</u>		
	450,250	
Less: Taper Relief (60%) (5-6 years)		<u>(30,060)</u>
		20,040
Less: Lifetime tax paid		<u>(19,250)</u>
Additional tax due on death		790
8/12/2020 PET	<u>178,000</u>	71,200
178,000 @ 40% = 71,200	<u>628,250</u>	

Chargeable Estate at Death – April 1, 2022.

	<i>£</i>	<i>£</i>
Main Residence	300,000	
Less: Repayment Mortgage	<u>(80,000)</u>	220,000
Holiday Home		140,000
Bank & Building Society Deposits		230,000
ISA's		50,000
Shares (12,000 @ £20)		240,000
Life Assurance		<u>140,000</u>
		1,020,000
Less: Debts	6,000	
Funeral Expenses	<u>6,000</u>	<u>(12,000)</u>
		1,008,000
Less: Exempt bequest to spouse		<u>(250,000)</u>
Chargeable Estate		<u>758,000</u>
Gross Chargeable Transfers in 7 years before death		<u>628,250</u>
Nil Rate Band fully used but residence nil rate band available as main residence left to direct descendant		
175,000 @ nil		
583,000 @ 40%		<u>£233,200</u>

Answer to Example 2

The gift on 1 October 2009 to her son is a PET. This was not chargeable when made nor will it be chargeable on death as Dee survived for the required 7 years. The transfer is therefore exempt but will be deemed to have used the Annual Exemptions for 09/10 and 08/09

The gift on 1 June 2010 is a CLT and was chargeable when made but not on death as again Dee survived for 7 years.

The gift on 1 September 2016 is a PET and will be chargeable on death as Dee died within the next 7 years.

Step 1 Compute the Chargeable Transfers

	1/6/10 CLT	1/9/16 PET
Transfer of value	336,000	296,000
Less: Exemptions		
AE 10/11	(3,000)	
AE 16/17		(3,000)
AE 15/16		(3,000)
Chargeable Transfer	<u>333,000</u>	<u>290,000</u>

AE 09/10 will have been applied to the 1 October 2009 PET despite it never becoming chargeable.

Step 2 Lifetime Transfers Chargeable When Made

	£	Gross Transfers	IHT
1/6/2010 CLT	333,000	335,000	2,000
325,000 @ nil = nil			
8,000 @ 25% = 2,000			

As the donor, Dee, paid the IHT, the transfer is a net transfer and therefore the excess over the nil rate band is taxed at 25%

Step 3 Lifetime Transfers Chargeable on Death

This is the hardest part of the question and requires us to firstly determine the earliest transfer within the 7 years before death as the starting point. In this example there is only one such transfer the PET on 1/9/16. However in computing any IHT payable on this transfer we must take account of what nil rate band is available after firstly deducting from it any CLT's made within the 7 years of this transfer:

	Gross Transfers	IHT
CLT 7 years < 1/9/2016	335,000	
1/9/2016 PET	290,000	116,000
No available nil rate band	<u>625,000</u>	
= 290,000 @ 40%		= 116,000

Less:	Taper Relief ((5-6 years) 60%)	(69,600)
		<u>46,400</u>

Although the CLT of 1 June 2010 has drastically affected the tax payable on the PET of 1 September 2016 it will only be relevant for transfers within the following 7 years hence any transfer after that date (1 June 2017), or as here the Chargeable Estate, will not take account of this earlier CLT in computing any IHT payable.

The 7 year cumulation period at the date of death will only therefore consider the PET of 1 September 2016 in determining any available nil rate band.

As there is no mention in the question of a main residence being included in the estate at death there is no residence nil rate band to apply.

Step 4 Chargeable Estate at Death – 1 March 2022

Chargeable Estate	500,000
Available nil rate band = 325,000 – 290,000 = 35,000	
IHT on Estate	
35,000 @ nil	= nil
465,000 @ 40%	= <u>186,000</u>
500,000	

Chapter 25**Answer to Example 1**

- (a) Orchid Ltd will become liable to compulsory VAT registration when its taxable supplies during any 12-month period exceed £85,000.

The taxable supplies for the first 12 months of trading to 31 May 2022 amount to only 64,400 so we now move forward adding in the next month, June 2022 and removing the sales of what is now 13 months ago, June 2021, as this revised 12 month total is only 72,300 compulsory registration is still not required. When we move forward to the end of July 2022, however taxable supplies will amount to £86,000 (4,300 + 5,100 + 4,700 + 4,700 + 4,900 + 4,800 + 6,000 + 6,100 + 7,900 + 8,200 + 11,800 + 17,500).

- (b) Orchid Ltd will have to notify HMRC by 30 August 2022, being 30 days after the end of the period.
(c) The company will be registered from 1 September 2022 or from an agreed earlier date.

Answer to Example 2

A business must register for VAT if there are reasonable grounds for believing that taxable supplies will exceed £85,000 in the following 30 days.

Forecast income is £90,000 per month, and so taxable supplies for the 30-day period to 30 April 2022 will exceed £85,000.

Tulip Ltd will have to notify HMRC by 30 April 2022, being the end of the 30-day period, and will be registered from 1 April 2022.

Answer to Example 3

Prior to putting up its prices, Vine Ltd's net profit is £75,200 (£80,000 - £4,800).

If Vine Ltd puts up its prices, then it will exceed the VAT registration limit of £85,000, and the business will have to register for VAT.

Output VAT will have to be absorbed by Vine Ltd, as sales are to the general public and there is no further scope for price increases.

The revised annual net profit will be:

	£
Income (87,000 × 100/120)	72,500
Expenses (4,800 × 100/120)	<u>(4,000)</u>
Net profit	68,500

This is a decrease in net profit of £6,700 (75,200 – 68,500), and so it is not beneficial for Vine Ltd to put up its prices.