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 efficient resource 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 how to read and interpret the BPT exam questions, as well as how to structure and type your answer.

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COMMON EXAM SCENARIOS

Set up business as a sole trader/partnership (unincorporated business) or company (incorporated business)

- Income Tax (IT) v Corporation Tax (CT) and IT on salary / dividends paid out
- Salary - NI paid by company and the director, offset by CT saving on salary and Employer NI
- Dividends – No NI and no CT deduction
- Losses – more flexibility for sole trader
- Company CT incentives e.g. R&D, IFA
- Exit strategy – ER for both: asset sale for sole trader, liquidation for company
- IHT – BPR for both
- Admin and Legal for company

Incorporation – sole trader/partnership (unincorporated business) to a company (incorporated business)

- Sole trader business ceases – Final trading income for IT; balancing allowances or succession election; terminal loss relief or loss c/f against income earned from company
- Deemed disposal of assets at MV – CGT, SDLT
- Gains automatically deferred under Incorporation relief if all assets (except cash) transferred
- Otherwise use Gift Relief on an asset by asset basis (e.g. if building is still held by individual in order to avoid SDLT on transfer to company)
- Can claim to disapply Incorporation Relief if ER will not apply on the later sale
- No ER on disposal of GW to a connected party
- TOGC will apply provided GW is transferred to New Co

IT	CT	CGT	VAT	SDLT
Trade ceases	Trade commences	Disposal at MV	TOGC or VAT	Buildings
		Deferral or ER?		

CGT Reliefs

Rollover relief

- Sells business asset and replaces with new business asset

Applies to:

1. L&B, P&M and GW used in the trading business

- 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 – Rollover relief defers the tax charge
- 4-year reinvestment window – 1 year before disposal, 3 years after
- If proceeds not fully reinvested, any cash received is taxable now
- ‘Holdover’ relief for depreciating assets (P&M) – 10-year max deferral. Gain is not rolled into the base cost

Gift relief

- Gift or below MV sale of a business asset or shares

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 assets / shares
- 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 to exclude non-trading assets i.e. investment assets – Trading assets / Total Assets
- Any cash received is taxable now

Anti-avoidance

CFCs

- Non-UK resident company 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 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 so 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