

Tolley[®] Exam Training

CTA APPLICATION AND PROFESSIONAL SKILLS

VAT AND OTHER INDIRECT TAXES

PRE REVISION QUESTION BANK

FA 2024 & F(No. 2)A 2024

May and November 2025 Sittings

PQ832

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This APS Pre Revision Question Bank contains 2 exam standard questions all with answers updated to Finance Act 2024 and Finance (No 2) Act 2024.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2025** and your own personalised version of the approved online legislation.

Using this question bank

You should now use this question bank to practice your technique and timing. Practice is the key to passing the APS paper – if you do not approach these practice case studies in the same way as you will the ‘real thing’ you will be reducing your chances of obtaining a pass.

Remember that you can read the pre-seen information in advance of attempting each question - it is always the final Exhibit.

Make sure you have 3.5 hours of uninterrupted time – stopping and starting means you may well take more than the allotted time and will give you a false impression of what can be achieved. 3.5 hours may seem a long time to allocate to practice a case study – but remember developing your exam technique for this paper is just as important as learning the technical detail required.

Do not attempt these case studies by just planning your answer and then reading the suggested answers. It is vital to practice typing up a full answer.

We recommend you complete a “Reflection” sheet each time you have finished a case study as part of the self-review process where you compare your typed up answer to the suggested answer provided and so we have included a copy of this sheet at the end of each answer in this question bank.

Guidance on Approach to APS questions

Over the next few pages there is some general information on how to approach the APS paper in order to be successful in this part of your CTA examination.

There is also some information about the way this case study paper will be marked.

Revision Question Banks

A separate further Revision Question Bank containing six further case studies will be available nearer to the date of your real exam.

CONTENTS**GUIDANCE ON THE APS PAPER**

- The APS Paper
- Approaching the APS Paper
- How the APS Paper is marked
- Appendix A: Narrative on Assessment Factors
- Appendix B: The Format of Letters and Reports

CTA TAX TABLES**CASE STUDIES**

NO	NAME
1	Hotels R Us
2	A&B Care Ltd

REVISION GUIDANCE

PURPOSE OF THE APS PAPER

The purpose of the Application and Professional Skills paper (APS) is to test your ability to **produce a report or letter which a client would value**.

It does this by focussing on **three skills** – Structure, Identification and Application (I&A) and Relevant Advice and Substantiated Recommendations (RA&SR).

In order to secure a pass, you are required to demonstrate **competence in all three** skills. We shall look at the way these competencies will be assessed in more detail later in this guidance.

The Case Study Question

The question will be drafted in such a way that:

- You need to **apply** your technical knowledge rather than simply regurgitate it
- You need to **weigh up options** and **reach a conclusion** as to which is the best option
- Detailed computations will not need to be prepared in order to answer the question
- Detailed technical analysis of obscure points will not be required
- You need to **communicate** information which may be complex in a clear manner and so the requirement will **always be for a report or letter to a client**
- It tests a **range of material** including topics from the matching Advanced Technical (AT) paper(s) as well as the specified awareness level topics (per the syllabus grids)

The CIOT anticipate that a full answer would be between 3,000 to 3,500 words (3,500 is an absolute limit given to the examiners when they draft their model answers) but there is no need for you to focus on word count in your answer script, this info is just given for guidance.

It is likely that questions will require **planning for a future action** rather than simply commenting on historic events.

It is also likely that consideration will be required of **interaction** between **taxes**. **Aspects of the law, ethics and accounting** CBE syllabuses may also need to be considered where relevant and appropriate.

The first part of the question will always be the introduction. This will cover key introductory matters but will not contain detailed material. It will be around half a side long, giving an **outline of the scenario** and will provide you with a good idea as to the likely requirements.

The introduction will cover:

- Who you are – eg stating “You are a tax manager in a firm of Chartered Tax Advisers.”
- Who the client is
- Outline of the scenario
- Reference to exhibits, for example – “you have recently received a letter (**EXHIBIT A**) from Mr Jones regarding his future plans.”

Exhibits

Exhibits will be as similar as possible to **real documents** that may be presented to an adviser in practice.

Types of exhibits may include:

- Letters from clients and other advisers
- Emails from clients, colleagues and other advisers
- Accounts or extracts from accounts
- Extracts from reports from other advisers, eg solicitors, surveyors
- Extracts from legal documents (such as trust deeds)

The final exhibit will always be the pre-seen information.

Pre-seen Information

The pre-seen information will give **background details** relevant to the client in the question, but it will not guide you as to the actual examination question requirements.

It is intended that the pre-seen information will better equip you to deal with the case study in the examination environment and makes the question more aligned to a client situation in which you may be involved.

It will be provided **two weeks in advance** of the examination. You will only receive the pre-seen information for the question you registered for when you sent in your exam entry.

You **may discuss** the pre-seen information with whoever you choose.

The pre-seen information will be provided again with the question, as the final exhibit.

The pre-seen information will comprise information which would typically be found in a client **permanent file**, such as:

Corporate client

- Group Structure
- For each group company, date & place of incorporation, places of business & nature of activity
- Share ownership
- Names of directors

Non-corporate business

- Name of business
- Date of commencement
- Nature of activity
- Ownership details

All businesses

- VAT registration certificate details for each entity or a statement that it isn't registered
- Option to tax (OTT) election details (if registered)
- Copy of last VAT return(s) (if registered)
- Copy of most recent accounts (IND - accounts for property business, IHTTE - trust accounts)

Individuals:

- Date and place of birth
- Name, date & place of birth of spouse (or statement that not married/widowed) plus date of marriage
- Names & dates of birth of children
- Will or statement that there is no Will
- Details of assets and income (if relevant)

The intention behind the material is to allow you to become familiar with the background of the client to avoid confusion on the day.

The pre-seen information will not include information on the anticipated transaction or event that is the subject of the question.

As is the case in practice, the pre-seen information may include material which is not required to answer the question.

APPROACHING THE APS PAPER

The Application and Professional Skills (APS) paper will test your ability to **apply** your tax knowledge to a practical case study.

In order to be successful in this paper you will need to have the ability to:

- sift through information, distinguishing between the key elements and those which are less important;
- communicate clearly in a manner appropriate to your client giving clear recommendations and coming to a conclusion;
- apply knowledge to a problem which will involve an understanding of the interaction of several taxes and which may not have a single correct answer.

Whilst the case study may well require you to carry out computations, this will only be in the context of providing results for you to comment on in depth in the written part of your answer.

The case study will require you to prepare a **detailed report or letter for your client** and you should incorporate an **Executive Summary** in your answer.

As this paper is intended to be a practical case study, whilst there will be a clear requirement, the specific content required will not be set out in detail.

In particular, you will be expected to **identify and comment on relevant ethical, professional, legal, accounting, regulatory and commercial issues** although the question requirement may not explicitly mention these.

Similarly, you should **consider the possible application of other taxes** to the scenario, beyond the primary tax being examined. It is important to be able to differentiate between various taxes, whilst considering the impact of one on the other.

The case studies are **not intended to be time pressured**. The aim is to allow you to have time to submit a complete answer, thus demonstrating your ability to deal with practical situations.

Successful candidates should be able to demonstrate a good technical knowledge of the tax topics examined in the **related Advanced Technical syllabus** paper(s) and the **Awareness topics identified as within the syllabus for their chosen APS case study**.

Such students should also have an understanding of aspects of ethics, law and accountancy relevant to a tax practitioner from the CBE text books.

The examiner will be looking for:

- sufficient breadth of knowledge to appreciate all the tax implications of a particular problem
- identification of the key issues
- application of knowledge to arrive at sensible recommendations and coming to a conclusion
- communication skills, using a well-structured pattern
 - use of headings
 - use of good English
 - use of summaries

Good examination technique is essential. It is the **quality** of the work produced that is important – **not** the **quantity**.

Due to the nature of the paper there is unlikely to be a single correct answer.

As you read the following notes which have been produced to help you deal effectively with the case studies, it is important to remember to focus on demonstrating your **professional skills** as well as application of your tax knowledge.

You need to take into account the **format** of the response, whether the style and tone is suitable for the client and whether the response is structured effectively.

Therefore, whilst it may be natural that your initial focus is likely to be on the technical detail required, it is just as important to plan how and to what extent that detail needs to be included in your answer.

Approach to the Case Studies

You should aim to adopt the following approach when attempting a case study:

1. READ
2. ANALYSE
3. PLAN
4. WRITE
5. REVIEW

1. READ

The CTA APS exam is 3.5 hours.

Start by identifying the issues carefully. This is important to establish some key things:

- who you are
- what you are required to do
- who you are writing the report to

These are important facts you must register before you move on to the next stage.

In the real examination you will have already had the pre-seen information but remember this will be provided to you again as the final exhibit.

The starting point is to **read the requirement**, which is in bold text usually on the first page of the case study. However, the requirement may be general in nature, for example 'Prepare a report addressing Jane's queries', so a review of all the information provided is necessary at this stage.

Now read the information contained in the body of the question and the exhibits, **highlighting key information** and jotting down notes on a piece of paper. Most of the detail will be in the exhibits so make sure you are comfortable with what is there.

In particular you should consider carefully the issues highlighted in the question and the information that is likely to be important, for example:

- family relationships, ages etc (you may already be familiar with this from the pre-seen info)
- business structures (again possibly already known from the pre-seen info)
- needs of client and any preferences expressed/courses of action ruled out

- actions already undertaken
- reliefs available
- timing issues

Now **re-read the requirement**. It is very easy at this stage to formulate an answer to what you would LIKE the question to ask, rather than what it ACTUALLY asks. Make sure you do not fall into the trap of typing up an answer that is not relevant to the question asked.

During this initial reading time you should have time to look up things in the legislation that will help you answer certain parts of the case study. Leave the legislation open at the relevant pages.

2. ANALYSE

Once you are satisfied you understand the requirement, you can move on to the next stage. Do not rush this part, as it is crucial to the whole process.

In the light of the requirement, re-read the question, decide which facts are important/relevant/not relevant. **Determine the areas to be addressed** in the answer.

Remember that each sentence and exhibit is there for a reason – there should not be much irrelevant information. Information may be included to highlight an issue, to identify a key point or to eliminate a course of action the examiner does not want covered.

There will be certain pieces of information that you either do not understand or cannot see the relevance of. It is possible for example that you will not use all the information provided in the pre-seen information. You need to concentrate on what you know and what you can do. Think positively and do not dwell on the areas you cannot get credit for.

For each issue you have highlighted – unless stated otherwise – you should **consider the implications for all relevant taxes**.

Look up in the legislation any areas of uncertainty, conditions etc.

3. PLAN

Now is the time to **produce a plan of the answer you intend to produce**.

You can either **handwrite or type** your plan but note that it will not be marked by the CIOT so it does not need to be included as part of your answer – the marker will only assess the actual report/letter you are asked to produce. You may decide that you prefer to handwrite your plan for ease of reference. You may decide you prefer to type it so that you can expand it. You need to practice these different approaches to work out whether handwriting or typing your plan works best for you.

For each issue you have highlighted, you should note down the areas which need to be discussed, taking into account the order of importance and considering all the implications. The plan can be in bullet point format but should contain sufficient detail to act as a checklist for when you start writing the actual answer. By producing a useful plan, you should be able to ensure that all points are covered in your final answer in a logical order.

You may have to **perform calculations as part of the plan** so that you can then analyse/comment on the results. These calculations should be typed up straight away as part of your answer – not handwritten. You should include them as an Appendix to the report/letter you will go on to write.

By the time you have finished the plan the hard work is really over – not only do you know what the case study wants you to consider, but you have now also considered all aspects, decided what needs to be included in your answer and know what **recommendations** you will give your client in the report/letter and the conclusion you have come to with regard to any options discussed.

Remember to determine the format of your answer – this is usually specified in the requirement.

You should also consider how you are going to allocate your remaining time to writing your answer to each element of the case study. **Never** overrun on time allocation, as this will have a detrimental effect on your overall answer. Come back to an incomplete section at the end of the exam if you have time.

These first three areas of the approach will take approximately thirty minutes to one hour leaving you between 2 and 2.5 hours of further exam time. The more calculations you have to do the more time you will need to allocate to your plan.

4. WRITE

Only start typing up the formal answer once the analysing and planning stages have been completed.

The format of the answer is very important. If the correct format is not used, there is significant risk that you will not be awarded a pass for the “Structure” competency. You will then fail the paper.

The following formats are recommended:

REPORT

TO:
FROM:
DATE:
SUBJECT:

The report should start with an “Introductory section” (normally no more than half a page) which should say:

- Who the report is intended for.
- What the report is based on (for example, “this report is based on your meeting with Amy Lim on 23 April 2024 and your subsequent letter to Amy dated 24 April”).
- Who can rely on the report. We suggest you simply remember the following standard wording: “This report is intended solely for use by you. Chartered Tax Advisers LLP accepts no responsibility for any reliance placed on this report by other parties”.
- The purpose of the report (summarised briefly).

A contents page is not required.

You can assume that the scope of the report is covered by the engagement letter. Unless it is specifically suggested otherwise in the question, there is no need to refer to the engagement letter in your answer.

If there are any limitations to our advice, these should be stated. Remember we are tax advisers, not lawyers or investment advisers. So any legal or investment advice should be referred to the client’s solicitor or IFA.

The Introductory section should be followed by an Executive Summary. Normal practice is to type this up last (but make sure it is inserted after the Introductory section).

The Executive Summary summarises the main advice and recommendations. There should be sufficient information in the Executive Summary that the reader can understand the recommendations without reading the detailed analysis. In effect, the Executive Summary is a snapshot of the key recommendations which can be read as a stand-alone document.

You should not introduce anything new in the Executive Summary. Everything in the Executive Summary should be available in the body of the report.

There is no need for a separate 'Conclusions' section at the end of the report as this is likely to be a repetition of the Executive Summary. [You will not lose marks for this, but you will have wasted time.]

Even though the client will have contacted your Tax Manager / Tax Partner for advice, the report is from your firm to the client. **The report should therefore use "We" throughout.** Alternatively, **you may prefer to use the third person**, eg. "[client name]" instead of "you" and "It is recommended that" instead of "we recommend". Whichever you choose, **you must be consistent** and not jump between the two. The use of "I" is not appropriate in a report.

The body of the report should be divided into sections (each dealing with a separate issue). A numbering system should be established. Keep this simple. Following the layout of the answers in this question bank is recommended.

The report should include appropriate advice, recommendations and conclusions. These are the key points which should be extracted for the Executive Summary.

Where advice is supported by computations, these should generally be in Appendices at the end of the report. Short "one or two line" calculations can be shown in the body of the report as you go along if you think that is beneficial to the reader.

It is important to **include and explain your workings**. This ensures that even where an error is made early on, credit can be given for the method applied to the later parts.

LETTER

Letters should be correctly addressed using the address information in the question. Letters should be headed, finished and signed off (do not use your own name – "Tax Adviser" will do).

[Firm's Name & Address per Q]

[Client Name & Address per Q] Date

Dear [Client Name per Q] – eg, Dear Alex / Dear Mr Brown

SUBJECT OF LETTER

Introduction

Summary of Key Points (Executive Summary)

Body of letter (divided into sections)

Yours sincerely
Tax Adviser

If the client is referred to by their title throughout the question (for example, Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown).

Normally however, the question will use forenames throughout and the salutation should therefore replicate this (for example, Dear Alex).

The first paragraph should briefly set out the background to the letter and the information on which it is based (for example a letter from the client). It should say who can rely on the letter.

Any limitations of advice should be stated here.

At APS, a letter question could require a letter from one individual to another (or to a joint client such as a couple), so **use of first person is acceptable**. For example, "I recommend", "I advise" etc is normally appropriate. You would then sign off as "Tax Adviser".

Instead, you might choose to write to the client in your position as a representative of your firm. In that case “we” is accepted. You would then sign off as “Chartered Tax Advisers LLP”.

It is important that the use of “I” or “we” is consistent. Never jump between the two.

After the Introduction, there should be an ‘Summary of key points’ to set out the key findings/conclusions of the letter. This serves the same purpose as an Executive Summary in a report and could also be called that.

The letter should be divided into sections. A numbering system for those sections is normally helpful.

Supporting computations should generally be in an Appendix.

The letter should include advice, recommendations and conclusions.

The letter should be signed off with “Yours sincerely”.

Advice common to both reports and letters

Always keep in mind that **you are asking a client to pay for the document you are producing!** The examiners are themselves tax advisers and will always have that in mind. Therefore put yourself in your client’s shoes and ask yourself whether you would pay money for the advice you are receiving.

First and foremost, your answer **must be written in a way the client can understand**. Clients do not want a series of options – they want **recommendations** as to which of the options should be adopted or discarded.

Above all else, clients want to know:

- 1) WHAT they should do; and
- 2) WHEN they should do it.

It is vital that you **come to a conclusion**. Don’t sit on the fence. You are unlikely to pass this paper unless you make sensible and positive recommendations which your client can understand.

Do not be afraid to state the obvious (credit is often allocated for this) but keep answers short and to the point. Remember “quantity” is not important. The examiner does not want to spend his time reading irrelevant and unnecessary paragraphs.

Try not to put more than one important point in each paragraph. Otherwise your points may get lost and you will not receive credit for them.

Leave a line between each paragraph. “White space” is important and helps the marker. It also helps the product look more professional.

Paragraphs should ideally **not run to more than three or four- lines**. Using short “snappy” paragraphs makes answers easier on the eye, and therefore more likely to attract credit.

A handy tip is to **say the sentence to yourself in your head before you type it**. If it doesn’t make sense, don’t type it!

Always use good grammar and spell words correctly. Do not use slang.

Try not to baffle the reader with technical jargon. Your client is not a tax expert. If they were, they wouldn’t need you. So **keep your language clear and simple**.

Use full sentences, even when any lists or bullet points are being used.

Abbreviations are acceptable as long as they have been previously defined. For example, “The gain on the disposal of your shares will be eligible for Business Asset Disposal Relief (BADR). The effect of BADR is to reduce the rate of tax on the capital gain to 10%....”

The APS paper is testing your professional skills - you need to show the marker that you deserve to be awarded the CTA qualification because you can provide **clear, relevant and reasoned tax advice** to your client.

Whilst in theory it would be possible to score well on professional skills even though the technical standard of your answer was poor, this is a fairly unlikely scenario. To be assessed as competent with regard to your professional skills, it will almost certainly be necessary for you to have demonstrated reasonable technical skills.

Nevertheless, where a technical inaccuracy flows through the remainder of the answer with consequent differences in the conclusions drawn and advice offered, you could still be assessed as a competent with regard to your professional skills.

The CIOT guidance on letters and reports is included in Appendix B later in this section.

5. REVIEW

About 10 minutes before the end of the examination you should sit back and review your answer and fine tune it as needed. Make sure you have produced an **Executive Summary** and that you have included this at the **start** of the report/letter, even if you created it last.

HOW THE APS PAPER IS MARKED

The following information is a copy of the document available on the CIOT website.

Introduction

In order to secure a pass in this paper, candidates are required to demonstrate competence in each of three skills:

- Structure
- Identification and Application
- Relevant Advice and Substantiated Recommendations

Structure

Structure is assessed across the answer as a whole and a pass or fail grade will be awarded. As noted above, a fail in this skill (or in either of the other two skills) will result in an overall fail. In arriving at the result for this skill, each of the following factors will be graded as either No Fault, MINOR Fault or MAJOR Fault (with a single grade for each – i.e. a candidate cannot get multiple MINOR faults on grammar and spellings for example):

- Overall format
- Introduction and conclusion
- Clear layout with headings
- Flow of answer
- Appropriate style
- Grammar and spellings
- Appropriate calculations
- Lack of irrelevant material

A candidate will pass Structure if they have either:

- 1) No MAJOR faults; or
- 2) One MAJOR fault and no more than 3 MINOR faults.

A candidate will fail Structure if they have either:

- 1) Two or more MAJOR faults; or
- 2) One MAJOR fault and four or more MINOR faults

Further narrative on what is expected for each factor is set out in Appendix A. Note that a different, but appropriate style to that adopted by the examiner will not be a fault.

Identification and Application

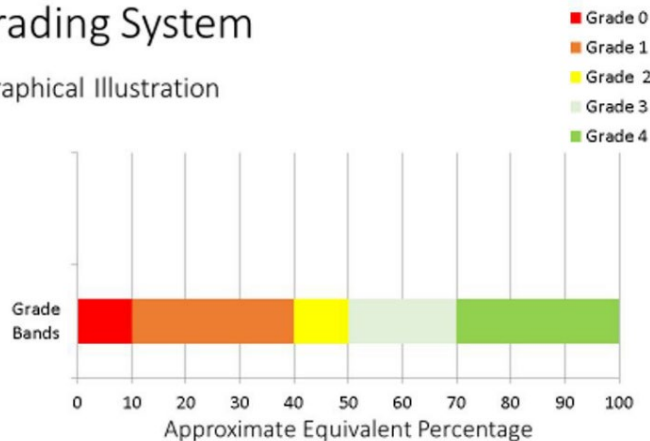
Identification and Application is assessed for competence across a number of broad topics within the answer. There will typically be four to six topics and a grade will be awarded for performance in that topic of 0, 1, 2, 3 or 4 as follows:

<i>Grade</i>	<i>Description</i>
0	Not attempted
1	Competence insufficiently demonstrated
2	Limited competence demonstrated
3	Competent
4	Highly competent

If a perfect answer represents 100%, the above grades may be considered as roughly equal to the following percentages of a perfect answer.

Grading System

Graphical Illustration



The grades awarded for each topic will be weighted and averaged to produce a weighted average grade for the skill across the whole answer. The weighting will reflect the importance and anticipated time required for each assessment area. The weighted average grade will be converted to a final grade of 0,1,2,3 or 4 as follows:

Weighted Average Grade	Final Grade
0.00 – 0.49	0
0.50 – 1.49	1
1.50 – 2.49	2
2.50 – 3.49	3
3.50 – 4.00	4

As noted above, a final grade of 3 is required to secure a pass, which means that candidates must achieve a weighted average grade of at least 2.5 across their answer.

For each topic the following factors will be considered:

- 1) Identification of issues (20% to 40%)
- 2) Application of technical knowledge (50% to 70%)
- 3) Use of information - Reference to material in question and Use of information (10% to 20%).

The relative weighting of these factors will vary from topic to topic, but typically will be in the ranges set out above.

Further narrative on what is expected for each factor is set out in Appendix A.

Relevant Advice and Substantiated Recommendations

The method of assessment of this skill is the same as for Identification and Application except that there will normally be fewer topics: typically between three and four topics.

For each topic the following factors will be considered:

- Questions posed by client answered AND Client advised what to do (20%-30%)
- Options weighed up AND Recommendations and conclusions supported AND Recommendations & conclusions weighted appropriately (30%-50%)
- Technically correct advice (10%)
- Commercial advice (20%-30%)
- Ethics and law (0%-10%)

Further narrative on what is expected for each factor is set out in Appendix A.

APPENDIX A - NARRATIVE ON ASSESSMENT FACTORS

Structure

Factor	Detail	MAJOR and MINOR faults
Overall format	The answer is set out in the format demanded. Thus, if it is a letter, it will be properly set out as a letter with addresses, date, "Dear X" and conclude "Yours sincerely" etc. If it is a report, it will give some indication as to what it is about and who it is for.	<p>Failure to produce an answer in the required format (for example, producing a letter when a report is required, or vice versa, or producing what is essentially a memo rather than a report) will be a MAJOR fault.</p> <p>Having adopted the correct format, errors in the format (for example, using "Yours faithfully" when the letter starts "Dear Rashid") will be a MINOR fault.</p> <p>Differences of style are not a fault.</p>
Introduction and Conclusion/Executive Summary	<p>The report or letter should contain an introduction setting out the terms of reference, information being relied on etc.</p> <p>It should also contain a summary of the key findings and recommendations in a Conclusion/ Executive Summary. (the actual content of the Conclusion/Executive Summary is marked under Relevant Advice and Substantiated Recommendations).</p>	<p>Omission of either the introduction or the Conclusion/Executive Summary will be a MAJOR fault.</p> <p>Omission of elements of the introduction will be a MINOR fault.</p>
Clear layout with headings	The body of the letter or report should be laid out in a clear way with appropriate headings so that the reader can navigate around it easily and spot the key areas without reading the entire document to try to find a discussion of, for example, income tax on some employment related shares.	<p>A failure to use appropriate headings will usually be a MINOR fault.</p> <p>If the layout is extremely poor with no headings this will be a MAJOR fault.</p>
Flow of answer	The answer "flows" so that a logical chain of thought is presented to the reader rather than a series of random comments (which may nevertheless be technically correct).	<p>Occasional elements of the answer not in a logical order will be a MINOR fault.</p> <p>An answer which is significantly jumbled will be a MAJOR fault.</p>

<p>Flow of answer (continued)</p>	<p>For example, this means that:</p> <ol style="list-style-type: none"> 1) A tax rule should be explained first and then applied. 2) It may be ordered so that: all taxes on a particular topic are considered together; all topics for a tax are considered together; or perhaps all topics for a relief are considered together. What is appropriate may depend on the question. It may also be the case that different approaches to the same question could be taken. 	
<p>Appropriate Style</p>	<p>The style of writing should be appropriate to what is being produced. For example, a report to a client or lay person should not contain lots of legislative references. The letter/report should not be written in the form of notes.</p>	<p>Extensive use of brief bullet points will be a MAJOR fault. The appropriate use of lists and appropriately numbered and explained points in full sentences will not be a fault.</p> <p>Inclusion of some references will not always be a fault, particularly if there is a discussion (for example) about the application of a key case to the client's situation.</p> <p>Significant numbers of inappropriate references will be a MINOR fault.</p>
<p>Grammar & spellings</p>	<p>The letter or report should be grammatically correct and free of spelling mistakes.</p>	<p>In practice, an adviser is likely to use a spelling and grammar checker and accordingly occasional spelling and grammatical errors will not be a fault.</p> <p>A number of errors such that a client would clearly notice them will be a MINOR fault.</p> <p>Large numbers of errors throughout the answer such that it becomes a significant distraction for the client will be a MAJOR fault.</p>
<p>Appropriate calculations</p>	<p>The answer should contain an appropriate level of calculations. This may mean no calculations, illustrative calculations or specific calculations. Any calculations should be linked to the narrative.</p>	<p>Only the appropriateness of calculations is considered here. The accuracy of calculations is assessed as part of Application of Technical Knowledge</p> <p>Excessive calculations will be a MINOR fault.</p>

<p>Appropriate calculations (continued)</p>		<p>A failure to adequately link the odd calculation to the answer will be a MINOR fault.</p> <p>A failure to provide a minor calculation which might be expected but has not specifically been requested in the question will be a MINOR fault.</p> <p>An absence of calculations or illustrative calculations where required or a failure to link most calculations to the answer will be a MAJOR fault.</p>
<p>Irrelevant material</p>	<p>The answer should not contain large amounts of irrelevant or duplicated material.</p>	<p>Isolated and brief irrelevant material will not be a fault.</p> <p>An element of duplication is expected in that the Executive Summary (or equivalent) will summarise and refer to material elsewhere in the answer.</p> <p>Occasional irrelevant or duplicated material will be a MINOR fault</p> <p>Large quantities of irrelevant or duplicated material will be a MAJOR fault.</p>

Identification and Application

Factor	Detail	Weighting of Factor for each Topic	Grading Guidance
<p>Identification of issues</p>	<p>The issues which are specific to the client and the requirement of the question should be identified. This covers not only the requirements identified by the client but also issues which the candidate should identify from the information as important to the client.</p>	<p>20%-30%</p>	<p>1 = The issues specific to the client and the requirements of the question have not been identified or have only been identified to a very limited extent.</p> <p>2 = The requirements of the question have been identified and some issues specific to the client have been identified to a very limited extent.</p> <p>3 = The requirements of the question have been identified and most issues specific or important to the client have been identified including some of those which may not be spelt out in the question or referred to by the client. Explanations are of a satisfactory standard.</p> <p>4 = All requirements of the question have been identified and all or virtually all issues specific or important to the client have been identified and clearly explained.</p>

<p>Application of technical knowledge</p>	<p>Technical information provided is correct and has been applied correctly to the specific circumstances of the question.</p> <p>As part of this, the accuracy of calculations will also be considered. However the focus is primarily on the method rather than the arithmetical accuracy.</p> <p>The application of knowledge includes its indirect application to other taxes which may be relevant to the scenario</p>	<p>50%-70%</p>	<p>1 = The technical information provided is largely incorrect and it has not been applied to the specific circumstances of the question</p> <p>2 = The technical information is broadly correct, but it has not been provided for all issues identified or it hasn't been applied to the specific circumstances of the question.</p> <p>3 = The technical information is correct except for minor points and has been provided for all issues identified and to the circumstances of the question. There may be some minor lack of clarity in explanations or in the quality of explanations.</p> <p>4 = Technical information is correct except for very minor points, is applied appropriately and is clearly explained. Calculations are largely arithmetically correct as well as correct in their method.</p>
<p>Use of information</p> <p>Reference to question</p>	<p>Information provided to the candidate in the question has been used appropriately.</p> <p>Candidate has referred back to question where appropriate.</p>	<p>10%-20%</p>	<p>1 = Little reference back to material in question nor has information in the question been used appropriately.</p> <p>2 = Some attempt to refer to information provided or use information appropriately.</p> <p>3 = A reasonable attempt has been made to use information provided in an appropriate way.</p> <p>4 = Very good attempt to use information provided in an appropriate way.</p>

Relevant Advice and Substantiated Recommendations

Factor	Detail	Weighting of Factor for each Topic	Grading Guidance
<p>Questions posed by client answered</p> <p>Client advised what to do</p>	<p>Any questions posed by the client must be answered and advice provided.</p> <p>A client comes to a Chartered Tax Adviser to be advised as to what to do. This means that they should not simply be presented with a series of factually correct observations and then left to interpret what they should do, but instead should receive considered and appropriate advice recommending what they should do.</p>	<p>20%-30%</p>	<p>Key Question - “What should I do?”</p> <p>The key element of this factor is that the client is advised what to do. Merely answering specific factual questions posed by the client (for example, “Is transaction X taxable?” carries little weight in the assessment as this should be a given in any answer.</p> <p>Open questions like “should I do x or y?” require the client to be told what to do.</p> <p>Questions may also be implied rather than explicitly set out in the question.</p> <p>1 = Some attempt has been made to answer any specific factual questions posed by the client but no attempt has been made to tell the client what they should do. Implied questions are not answered.</p> <p>2 = All Specific factual questions posed by the client have been answered and a limited attempt has been made to tell the client what they should do. Some implied questions may have been identified.</p> <p>3 = All specific factual questions posed by the client have been answered. A reasonable attempt has been made to advise the client what to do. Implied questions have been identified but the advice may not be fully developed.</p> <p>4 = All questions have been answered and good advice has been provided to the client on what to do.</p>

<p>Technically correct advice and recommendations (continued)</p>	<p>example to discuss either something which is purely factual or as analysis before advice is covered in Identification and Application. The score will therefore mainly (but not exclusively) relate to the Executive Summary (or equivalent).</p>		<p>contradiction where the candidate seems unclear on the correct position. Alternatively, there may be incorrect technical advice on relatively minor areas which would fundamentally change the recommendations.</p> <p>3 = In relation to all key areas, the advice provided is technically correct. In some minor and unimportant areas which would not affect the overall recommendations, the advice may not be complete or technically correct. There are no significant contradictions in technical advice.</p> <p>4 = The advice provided is technically correct.</p>
<p>Commercial and wider advice</p>	<p>Advice provided should not simply provide an answer which produces the best tax outcome, but should also consider the wider position to ensure that the advice is appropriate.</p> <p>It <u>may</u> include a consideration of:</p> <ul style="list-style-type: none"> i. Commercial/financial outcomes ii. How HMRC may view the advice/transactions. iii. Practical/operational factors iv. Social/environmental/technical /funding issues <p>The above list is not exhaustive as the issues identified should be appropriate to the scenario. Candidates are not expected to go into depth on the above areas but should be evidencing an appreciation that their advice should not be seen in isolation. It is important to recognise that better answers will add value to the client.</p>	<p>20% - 30%</p>	<p>Key Question – “Has the candidate demonstrated a wider thought process?”</p> <p>1 = The advice provided is in isolation and there has been no significant attempt to consider the wider implications.</p> <p>2 = There has been a limited attempt to consider the wider implications of the advice but this is incomplete or impractical.</p> <p>3 = There has been a reasonable attempt to consider wider implications, including for example how HMRC may consider the transaction or what further advice from other professionals may be required. There may be minor elements of the advice that are not entirely commercial, or practical</p> <p>4 = There has been a good attempt to consider the commercial implications of the advice including wider issues. Advice given is commercial. The client is likely to feel that the answer has added value.</p>

<p>Ethics and law</p>	<p>Where the topic contains matters on which candidates are expected to comment on legal or ethical matters, credit will be available. On some topics there may be no expectation of comment and hence no credit available</p>	<p>0%-10%</p>	<p>1 = Some ethical and legal issues identified but with little explanation of the implications nor recommendations.</p> <p>2 = Ethical and legal issues identified with explanation of implications but little in the way of recommendations.</p> <p>3 = Ethical and legal issues identified and implications explained with recommendations made. The weighting within the answer may not be appropriate.</p> <p>4 = All elements covered appropriately.</p>
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Although there may or may not be specific information that is expected on ethics and law for which positive credit may be available, it needs to be recognised that unethical or illegal advice is a serious issue and that simply scoring 0 on a maximum of 10% of the score for a topic is not an appropriate penalty. As a result, where a candidate advises a client to undertake an illegal act or to take actions which are clearly not ethical they will be penalised by way of a downward adjustment to the score they would otherwise have achieved for this skill. Depending on the circumstances this may result in a fail irrespective of the quality of the rest of the answer. It is expected that it will be rare that this adjustment is applied.

APPENDIX B - THE FORMAT OF LETTERS AND REPORTS

Introduction

Structure is one of the three skills assessed in the Application and Professional Skills paper. The purpose of this note is to provide some further guidance on letters and reports.

Letters and Reports

The APS questions always either require the candidate to produce a letter or require the candidate to produce a report. Reports and letters are not the same thing and it is therefore vital that candidates produce the correct document.

Whilst it is recognised that candidates will be trained to produce letters and reports in the house style for their firm and therefore there is not a single prescribed format required for the exam, it is also clear that significant numbers of candidates would appreciate guidance from us as to how they may be formatted. A different but appropriate presentation is not penalised. For clarity, we have flagged below comments relating to style which are not penalised using STYLE

General Points for both Letters and Reports

1. Abbreviations may be used in the answer. They should be defined on their first use, for example Business Property Relief (“BPR”). There is no need to produce a separate list of abbreviations (although this will not lose credit, it will not gain credit).
2. Full sentences should be used throughout, including when any lists or bullet points are used.
3. Unless the question provides information to the contrary, candidates may assume that the letter/report is covered by the engagement letter and accordingly there is no need to refer to the engagement letter in their answer.

Letters

1. The requirement to produce a letter will only be used in questions where the candidate is advising their client and not for situations where the candidate is, for example, the in-house tax manager.
2. The letter should include the address of the sender, the name and address of the client and the date. Where the address is given in the question, this should be used in the answer. Where the address is not given, “Your address” and “My address” may be used or an address may be invented. Whilst the address of the client should always be at the top of the letter, candidates may if they wish have the details of their firm elsewhere (e.g. the bottom of the first page) as would be the case for headed notepaper – STYLE. In terms of formatting within the constraints of the exam it is likely to be easier to adopt a normal business format of the firm’s address in the top right with the client’s address on the left.
3. Candidates may if they wish include a filing reference, however there is no requirement to do so - STYLE.
4. If the client is referred to by their title throughout the question (for example Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown). Normally however, the question will use forenames throughout and the salutation should therefore do this (for example, Dear Alex).
5. After the salutation, there should be a heading appropriate for the content/purpose of the letter.
6. There should then be an introduction briefly setting out the background to the letter and the information on which it is based (for example a letter from the client) and any limitations.

7. Where the letter to and about individuals it should use “you” throughout unless there are two clients (for example husband and wife) in which case for clarity it may be necessary to use their names (for example, David should do X while Mary should do Y). Where the client is a company, the letter should say “the Company should” or “G Ltd should” - STYLE. It should not jump between “I” and “we”.
8. As the letter will be from one person to another, it should be written in the first person, thus, “I recommend” not “it is recommended”. STYLE
9. If there are calculations, (for example comparing option A with option B) it may be appropriate for these to be in an enclosure to the letter rather than in the main body of the letter.
10. In the body of the letter, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the letter considers whether a company should be sold, at the end of that section there should be a conclusion on this point.
11. The letter should include a section summarising the key advice and recommendations. This may either follow the introduction or be at the end of the letter. As the letter is a more personal document than a report, “Conclusions” is likely to be a more appropriate term than “Executive Summary” - STYLE. There should be sufficient information that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the letter. For example, the body of the letter may include sections on two separate points each of which has a conclusion which potentially conflict. The Conclusion may refer to those conclusions and weigh them up in making a final recommendation.
12. There should not be two separate Conclusions sections at the beginning and end of the letter as they are likely to be largely the same and will waste time (although it will not lose credit).
13. The letter should conclude with “Yours sincerely”.

Reports

1. A report will always be required in questions where the candidate is not an adviser in practice (for example, where the candidate is an in-house tax manager). In questions where the candidate is an adviser in practice, a report will often be required.
2. It should start with a heading setting out who the report is to and what is the subject of the report.
3. There is no need to produce a contents page. Although this will not lose credit, it will not gain credit.
4. The introduction should confirm who the report is for and say who may rely on it. It should briefly set out the information on which it is based (for example a letter from the client) and any limitations. The adviser’s name and date of the report may follow this or be at the end of the report. The address may be included.
5. In the body of the report, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the report considers whether a company should be sold, at the end of that section there should be a conclusion on this point.
6. The Executive Summary summarises the main advice and recommendations. There should be sufficient information so that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the report. For example, the body of the report may include sections on two separate points each of which has a conclusion which potentially conflict. The Executive Summary may refer to those conclusions and weigh them up in making a final recommendation.

7. There should not be a separate Conclusions section at the end of the report as well as the Executive Summary as this is likely to be largely the same and will waste time (although it will not lose credit).
8. Rather than using “you should” the report will normally use the client’s name (for example “Peter should” or “the company should”), particularly where the report is addressed to a group of people (for example the Board of directors) - STYLE.
9. The report may be written in the third person, thus “it is recommended”. Where the report is from a firm of advisers, if the first person is used, “we recommend” will be more appropriate than “I recommend” - STYLE. Whichever form is chosen, it should be used throughout the report.

INCOME TAX - RATES AND THRESHOLDS

	2024/25	2023/24
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701 – 125,140
Dividend allowance	500	1,000
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Standard rate band for trusts	N/A	1,000
Scottish Tax Rates⁽¹⁾	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	N/A
Top rate	48	47
Scottish Tax Thresholds⁽¹⁾	£	£
Starter rate	1 – 2,306	1 – 2,162
Scottish basic rate	2,307 – 13,991	2,163 – 13,118
Intermediate rate	13,992 – 31,092	13,119 – 31,092
Higher rate	31,093 – 62,430	31,093 – 125,140
Advanced rate	62,431 – 125,140	N/A
Top rate	125,140+	125,140+

INCOME TAX - RELIEFS

	2024/25	2023/24
	£	£
Personal allowance ⁽²⁾	12,570	12,570
Married couple's allowance ⁽³⁾	11,080	10,375
– Maximum income before abatement of relief - £1 for £2	37,000	34,600
– Minimum allowance	4,280	4,010
Transferable Tax allowance for married couples and civil partners ⁽⁴⁾	1,260	1,260
Blind person's allowance	3,070	2,870
Enterprise investment scheme relief limit ⁽⁵⁾	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	200,000
De minimis trusts amount	500	N/A

- Notes:** (1) Scottish taxpayers pay Scottish income tax on non-savings income.
- (2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge intensive companies.

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ISA limits	2024/25	2023/24
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions	Annual allowance ⁽¹⁾	Minimum pension age
	£	
2023/24	60,000	55
2024/25	60,000	55

Basic amount qualifying for tax relief £3,600

Lump sum allowance £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

Employer Supported Childcare	2024/25	2023/24
Exemption – basic rate taxpayer ⁽²⁾	£55 per week	£55 per week

Note: (2) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

ITEPA mileage rates

Car or van ⁽³⁾	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (3) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2024/25

Emissions	Electric range (miles)	Car benefit % ⁽⁴⁾	
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (4) 4% supplement for diesel cars excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure	2024/25	2023/24
	£	£
	27,800	27,800

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Van benefits	2024/25	2023/24
	£	£
No CO ₂ emissions	Nil	Nil
CO ₂ emissions > 0g/km	3,960	3,960
Fuel benefit for vans	757	757
Official rate of interest	2.25%	2.25%

INCOME TAX - CHARGES

Child benefit charge	Withdrawal rate
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) ⁽¹⁾	100%
WDA on plant and machinery in main pool ⁽²⁾	18%
WDA on plant and machinery in special rate pool ⁽³⁾	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) ⁽⁴⁾	3%

- Notes:** (1) On first £1,000,000 of investment in plant & machinery (not cars).
 (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
 (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).
 (4) A 10% rate applies in respect of special tax site expenditure.

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.
 New zero-emission goods vehicles (until 1 or 6 April 2025).
 New cars that either emit 0g/km of CO₂ (50g/km prior to April 2021) or are electric (until 1 April 2025).
 Electric vehicle charging points (until 1 or 6 April 2025).

First year allowances (FYA) available to companies only

	Main pool assets	Special rate pool assets
Expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards ⁽⁵⁾	100%	50%
Expenditure on new plant and machinery (other than cars) in a special tax site	100%	100%

- Notes:** (5) 130% for main pool expenditure and 50% for special rate pool expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2024/25	2023/24
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses		
Cars or vans	First 10,000 business miles	45p per mile
	Additional business miles	25p per mile
Motorcycles		24p per mile
Business use of home		
	25 – 50 hours use	£10 per month
	51 – 100 hours use	£18 per month
	101+ hours use	£26 per month
Private use of business premises		
	No of persons living there:	
	1	£350 per month
	2	£500 per month
	3+	£650 per month

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	2024/25			2023/24		
	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Lower earnings limit (LEL)	£6,396	£533	£123	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£9,100	£758	£175	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Special tax sites upper secondary threshold	£25,000	£2,083	£481	£25,000	£2,083	£481

Class 1 primary contribution rates

Earnings between PT and UEL	8%	12%
Earnings above UEL	2%	2%

Class 1 secondary contribution rates

Earnings above ST ⁽¹⁾	13.8%	13.8%
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Note: (1) Rate of secondary NICs between the ST and the UST, AUST & special tax sites upper secondary threshold is 0%.

	2024/25	2023/24
Employment allowance		
Per year, per employer	£5,000	£5,000
Class 1A contributions	13.8%	13.8%
Class 1B contributions	13.8%	13.8%
Class 2 contributions		
Rate	£3.45 pw	£3.45 pw
Small profits threshold (SPL) ⁽²⁾	£6,725	£6,725
Lower profits limit (LPL)	N/A	£12,570

Note: (2) From 2024/25, self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions	£17.45 pw	£17.45 pw
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Class 4 contributions

Annual lower profits limit (LPL)	£12,570	£12,570
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	6%	9%
Percentage rate above UPL	2%	2%

OTHER PAYROLL INFORMATION

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £184.03 and 90% of AWE
Statutory shared parental pay /paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £184.03
Statutory sick pay	£116.75 per week

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Student Loan	Plan 1:	9% of earnings exceeding £24,990 per year (£2,082.50 per month/ £480.57 per week)
	Plan 2:	9% of earnings exceeding £27,295 per year (£2,274.58 per month /£524.90 per week)
	Plan 4:	9% of earnings exceeding £31,395 per year (£2,616.25 per month /£603.75 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2024 onwards)

Category of Worker	Rate per hour £	Category of Worker	Rate per hour £
Workers aged 21 and over	11.44	16–17 year olds	6.40
18–20 year olds	8.60	Apprentices	6.40

Accommodation Offset £9.99 per day

HMRC INTEREST RATES (assumed)

Late payment interest	7.75%
Interest on underpaid corporation tax instalments	6.25%
Repayment interest	4.25%
Interest on overpaid corporation tax instalments	5.00%

CAPITAL GAINS TAX

	2024/25	2023/24
Annual exempt amount for individuals	£3,000	£6,000

CGT rates for individuals, trusts and estates

Gains qualifying for business asset disposal ⁽¹⁾ /investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band ⁽²⁾	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates ⁽³⁾	20%	20%

- Notes:** (1) Formerly called entrepreneurs' relief
(2) The rate is 18% if the gain is in respect of a residential property
(3) The rate is 24% (28% in 2023/24) if the gain is in respect of a residential property

Business Asset Disposal relief	2024/25	2023/24
Relevant gains (lifetime maximum) ⁽⁴⁾	£1 million	£1 million

Investors' relief	2024/25	2023/24
Relevant gains (lifetime maximum)	£10 million	£10 million

Note: (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage	Years	Percentage
50+	100.000	37	93.497	24	79.622	11	50.038
49	99.657	36	92.761	23	78.055	10	46.695
48	99.289	35	91.981	22	76.399	9	43.154
47	98.902	34	91.156	21	74.635	8	39.399
46	98.490	33	90.280	20	72.770	7	35.414
45	98.059	32	89.354	19	70.791	6	31.195
44	97.595	31	88.371	18	68.697	5	26.722
43	97.107	30	87.330	17	66.470	4	21.983
42	96.593	29	86.226	16	64.116	3	16.959
41	96.041	28	85.053	15	61.617	2	11.629
40	95.457	27	83.816	14	58.971	1	5.983
39	94.842	26	82.496	13	56.167	0	0.000
38	94.189	25	81.100	12	53.191		

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Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

CORPORATION TAX

Financial year	2024	2023
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small ⁽²⁾	Medium ⁽²⁾	Extended definition for R&D expenditure
Employees ⁽¹⁾	< 50	< 250	<500
Turnover ⁽¹⁾	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets ⁽¹⁾	≤ €10m	≤ €43m	≤ €86m

Notes: (1) Must meet employees criteria and either turnover or balance sheet assets criteria.

(2) Thresholds apply for transfer pricing and distributions received by small companies.

CTA EXAMINATIONS

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Research and development expenditure

Financial year	2023
Total relief for Small & medium enterprises (SMEs)	186%
R&D tax credit for SME losses	10%
Large companies – RDEC	20%
Financial year	2024
Enhanced R&D Intensive Support (ERIS) - total relief for loss making R&D intensive SMEs	186%
R&D tax credit for R&D intensive SME losses	14.5%
RDEC (merged scheme RDEC) ⁽¹⁾	20%

Note: (1) From 1 April 2024 the merged scheme RDEC is available to all companies.

VALUE ADDED TAX

	Standard rate	VAT fraction
Rate	20%	1/6
Limits	2024/25	2023/24
	£	£
Annual registration limit	90,000	85,000
De-registration limit	88,000	83,000
Thresholds	Cash accounting	Annual accounting
	£	£
Turnover threshold to join scheme	1,350,000	1,350,000
Turnover threshold to leave scheme	1,600,000	1,600,000

ADVISORY FUEL RATES (as at 1 March 2024)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	14p
Over 2000cc	24p	21p	Over 2000cc	19p

Electricity rate 9p

OTHER INDIRECT TAXES

	2024/25	2023/24
Insurance premium tax⁽²⁾		
Standard rate	12%	12%
Higher rate	20%	20%

Notes: (2) Premium is tax inclusive (³/₂₈ for 12% rate and ¹/₆ for 20% rate).

Landfill Tax (pro rated for part tonnes)

Standard rate	£103.70 per tonne	£102.10 per tonne
Lower rate	£3.30 per tonne	£3.25 per tonne

Landfill Communities Fund (LCF) ⁽³⁾ 5.3% x landfill tax liability 5.3% x landfill tax liability

Notes: (3) Relief for 90% of qualifying contributions

Aggregates Levy (pro rated for part tonnes) £2.03 per tonne £2 per tonne

Plastic Packaging Tax (PPT) (pro rated for part tonnes) £217.85 per tonne £210.82 per tonne

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Climate Change Levy (CCL)⁽¹⁾

Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.672p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	5.258p per kg

Carbon Price Support (CPS) rates

Natural gas	0.331 per kwh	0.331 per kwh
LPG	5.28p per kg	5.28p per kg
Coal & other taxable solid fossil fuels	£1.5479 per GJ on GCV	£1.5479 per GJ on GCV

Tobacco products duty

	From 22.11.2023	From 15.03.2023
Cigarettes	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes ⁽²⁾)	16.5% x retail price + £294.72 per thousand cigarettes (or £393.45 per thousand cigarettes ⁽²⁾)
Cigars	£395.03 per kg	£367.61 per kg
Hand-rolling tobacco	£412.32 per kg	£351.03 per kg
Other smoking/chewing tobacco	£173.68 per kg	£161.62 per kg
Tobacco for heating	£325.53 per kg	£302.93 per kg

Alcohol Duty⁽³⁾

From 1 August 2023 to 1 February 2025

	Duty in £ for each litre of pure alcohol in the product		Duty in £ for each litre of pure alcohol in the product
Beer (ABV)		Spirits/Spirit based products (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	21.01	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Cider (not sparkling) (ABV)		Wine/sparkling wine (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	9.67	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Sparkling cider (ABV)		Other fermented products like fruit ciders (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 5.5%	9.67	3.5% to 8.4%	24.77
5.6% to 8.4%	24.77	8.5% to 22%	28.50
8.5% to 22%	28.50	Stronger than 22%	31.64
Stronger than 22%	31.64		

- Notes:** (1) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2024/25 (2023/24 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (12%), for LPG it is 23% (23%) and 11% (12%) for any other taxable commodity
- (2) The £422.80/£393.45 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)
- (3) There are reduced rates for qualifying draught products

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TAX TABLES



INHERITANCE TAX

Death rate	40% ⁽³⁾	Lifetime rate	20%
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Note: (3) 36% rate if 10% or more of the deceased person's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands⁽⁴⁾

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (4) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick Succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts	
Child	£5,000
Grandchild or remoter issue or other party to marriage	£2,500
Other	£1,000

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	From 1.4.24	From 1.4.23
>£0.5m - ≤ 1m	£4,400	£4,150
> £1m - ≤ 2m	£9,000	£8,450
> £2m – ≤ 5m	£30,550	£28,650
> £5m – ≤ 10m	£71,500	£67,050
> £10m – ≤ 20m	£143,550	£134,550
> £20m	£287,500	£269,450

STAMP DUTY/SDRT

Stamp duty⁽¹⁾	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax (SDRT)⁽²⁾	- On agreements to transfer shares ⁽²⁾	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).
(2) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

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TAX TABLES



STAMP DUTY LAND TAX (SDLT)

Qualifying purchases in a Freeport receive full SDLT relief

Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

Basic Rate % ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Residential ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Rate %	Non-Residential
0	£0 - £250,000	0	£0 - £150,000
5	£250,001 - £925,000	2	£150,001 - £250,000
10	£925,001 - £1,500,000	5	£250,001 +
12	£1,500,001+		

- Notes:** (3) The basic rates are increased by 3% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 3% on all purchases of residential properties, subject to Note 4 below.
- (4) Companies (and certain other entities) pay 15% on purchases of residential property valued > £500,000 (subject to exceptions).
- (5) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will not be due on properties up to £425,000. For homes between £425,000 and £625,000, SDLT will be payable at 5% on the amount above the £425,000 threshold. Homes bought for more than £625,000 will incur the rates as per column 1 in above table.
- (6) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 3), and the 15% rate (where applicable, in Note 4).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	Non-residential
0	Up to £250,000	Up to £150,000
1	Excess over £250,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

Basic Rate % ⁽¹⁾⁽²⁾⁽³⁾	Residential	Rate % ⁽¹⁾	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

- Notes:** (1) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.
- (2) The 'Additional Dwelling Supplement' of 6% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.
- (3) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent ⁽⁴⁾
	Non-residential
Zero	Up to £150,000
1%	£150,001 to £2,000,000
2%	£2,000,001+

- Note:** (4) Residential leases are generally exempt

CASE STUDIES

1. It is May 2025.

You act as the tax manager for the firm Gillams, Chartered Tax Advisers. The tax partner at your firm, Jeremy Ryan, has forwarded to you a letter received from Carl Creevy, Head of Tax for Hotels R Us plc, which is the holding company for a multinational hotel chain.

The following exhibits are attached to assist you:

EXHIBIT A: Letter from Carl Creevy, Head of Tax, at Hotels R Us plc

EXHIBIT B: Further information provided by Carl Creevy

EXHIBIT C: Pre-seen information

Requirement:

Write a letter in response to the matters raised by Carl Creevy, advising him on the best course of action for the sale of the hotel chain and the other advice requested by him.

EXHIBIT ALetter from Carl Creevy, Head of Tax, at Hotels R Us plc

Jeremy Ryan
Tax Partner
Gillams Chartered Tax Advisers
High Street
Longford
LG1 1JS

Hotels R Us plc
Banford Retail Park
Commercial Street
Ringford
RD7 1AA

Our Ref: CC

20 April 2025

Dear Jeremy

Project Amethyst

Following a recent meeting of global executives, a decision was taken to proceed with Project Amethyst. This will be a significant restructuring exercise for the UK group for which we will need specialist advice from your firm. We do not wish to involve our existing advisers, Willing Workers & Co, with this exercise, but we will retain their services for all other ongoing matters. We are happy for your firm to contact them if necessary.

Current group structure and brief history

As you know, the Hotels R Us brand was developed in the USA in the 1970s. During the 1990s the relevant US corporations came under the ownership of the UK Correlli group, which subsequently changed its name to become the group known as Hotels R Us plc (HRU). However, despite this acquisition, the global franchise remains under the ownership of Hotels R Us Inc in the USA.

The hotels range from the basic to the luxurious but within each type we adhere to brand franchising so that there is uniform quality and specifications across all branded hotels. Each hotel, wherever located worldwide, remains contracted, either directly or indirectly, to the HRU global franchise owner, Hotels R Us Inc, in the USA. The franchise/licence agreements give the user access to the brand systems and trademarks, and also give the hotel owners access to the global reservations system, marketing and similar programmes. UK hotel owners also participate in the HRU loyalty scheme, discussed below.

Project Amethyst proposal

We have decided that the best direction for the UK group is to follow a strategy of reducing substantially our interests in hotel ownership and focus on the US centred franchise business. We believe this will lead to greater profitability and will enable us to return capital to shareholders. The restructuring will involve the sale of our UK hotel interests, with the condition that the purchaser enters into franchise agreements with respect to all these hotels. Currently each of our 40 UK hotels is owned by individual property-owning companies. These companies are all wholly owned by HRU Properties Ltd, which in turn is wholly owned by HRU plc. All companies involved are members of the HRU UK VAT group. Sale will be to an independent UK third party at open market value.

At the current date, no decision has yet been taken as to whether the portfolio of hotels should be sold as either a straight sale of assets or by a sale of shares of the companies owning the hotels. We are aware that the final transaction may be negotiable depending on the bargaining position of the purchasing company with reference to its tax costs. I should be grateful for your advice as to which route would be preferable to us from a tax

and commercial perspective in order that I can report back to the Board. If you have any other ideas for structuring the deal, then please let me know.

Insurance Premium Tax

We have a wholly owned subsidiary, HRU Insurance Services Ltd, which provides buildings insurance for all HRU hotels globally.

The purchaser does not have a captive insurance company or any satisfactory insurance arrangements. The purchaser would like to ensure continuity of insurance and to benefit from our existing arrangements if at all possible. Further, for strategic reasons, it would like to have an insurance business within its own structure. Likewise, in conjunction with the aims of Project Amethyst, we do not wish to retain segments of the business surplus to our requirements in the UK. We would therefore welcome your advice on the necessary restructuring.

Loyalty scheme

Finally, we require brief clarification about the VAT position concerning our loyalty scheme, pending the sale of the hotel portfolio to a third party. As you are aware, the HRU group runs a loyalty scheme in the UK, whereby it issues points to guests for stays in our hotels. The scheme is administered by HRU Group Services Ltd on behalf of UK hotels. HRU Group Services receives income from the group companies as and when they award loyalty points to their guests. Guests may redeem those points either against stays in any HRU hotel in the UK or against other products. Where guests choose hotel bookings, the individual hotels will accordingly seek to charge HRU Group Services Ltd for the points redeemed. The scheme will remain in place following the sale and franchisees will redeem points in the same manner as existing owned hotels.

We are aware that there has been some litigation in the courts about loyalty schemes and whether VAT can be recovered. Could you please briefly explain the relevance of this to Hotels R Us and the implications that will arise upon the proposed sale of our hotel portfolio?

You will appreciate that this exercise is confidential in nature and we would expect your firm to act accordingly. I look forward to hearing from you.

Yours sincerely

Carl Creevy
Head of Tax

EXHIBIT BFurther information provided by Carl Creevy

Intends to complete transaction in June 2025. Purchaser will be a UK company. Identity and details of purchaser cannot be revealed as yet.

Client has yet to decide on sale route – whether sale of assets or sale of shares. Sale to be for cash at open market value.

UK VAT group is fully taxable. The annual VAT liability for the group is well in excess of £3 million. HRU has exercised the option to tax in relation to all UK hotel properties.

Each hotel owning company holds a freehold interest in that property.

If we pursue an asset sale, then the buildings will be sold for around £60 million, with indexed costs of £20 million. Options to tax have been made on all the buildings. Loose plant and machinery will be sold for £2 million and have a written down value for tax of £250,000. We will make some staff redundant and have estimated redundancy amounts of £3m. We won't be charging for goodwill as we will collect in debtors of £50,000 and the purchaser has agreed to pay off creditors.

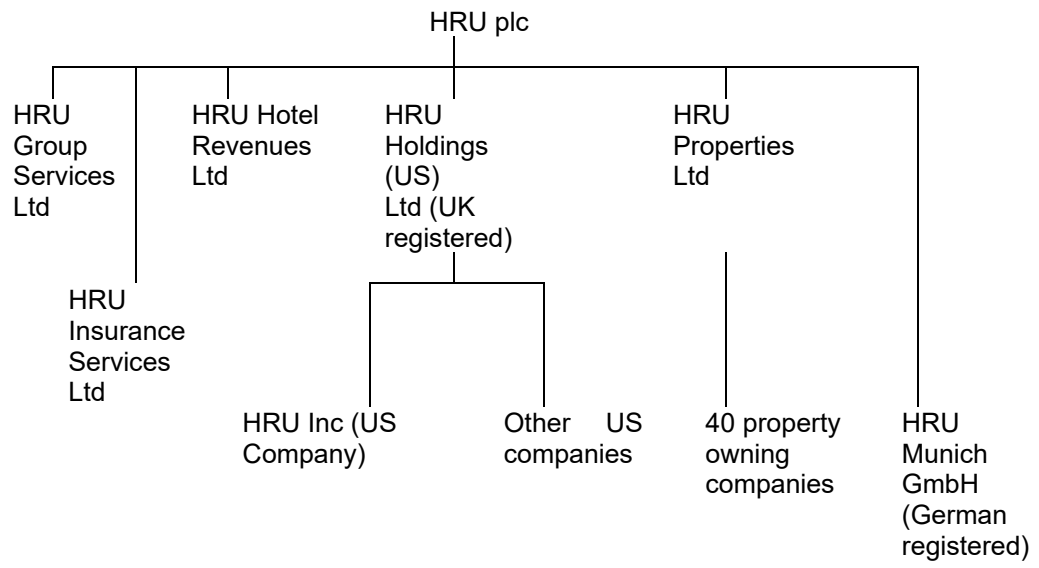
If we pursue a share sale, then we anticipate a share price of £58 million. Each company was set up with a minimal amount of share capital. The purchaser will make staff redundant and will have to pay off the creditors. The share sale will net us less money than an asset sale, but the purchasers are concerned that with a share purchase they will not obtain capital allowances or other tax deductions that they would with a purchase of assets, so this is reflected in the price. The purchaser isn't quite as keen on this route as they don't want to take over the creditors and they also want to rationalise the workforce and know that any redundancies will become their liability.

EXHIBIT CPre-seen information

Client Name	Hotels R Us plc
Client Background	Brand developed in the USA in the 1970s During the 1990s US corporations came under the ownership of the UK Correlli group, where it changed its name to become known as the Hotels R Us group Global franchise remains under Hotels R Us Inc in the USA
Business	Group of hotels: 40 based in England. A mix of hotels for all budgets, ranging from those with no facilities aimed at businessmen/women who want a basic room to stay in, to the luxurious end of the market with facilities such as gyms and hair salons. An extensive refurbishment program was carried out five years ago. Some hotels have restaurants that are also open to members of the public and a number have achieved Michelin Star status. Poor performing restaurants use self-employed chefs for a period of time to turn around this part of the business. A number of waiting staff are on 'zero hours' contracts and depending on how busy the restaurants are this dictates how many hours the staff work
Key personnel	Carl Creevy, Group Tax Manager, Additional rate taxpayer, receives a company car and medical insurance. PHI is provided free of charge by HRU plc
VAT	All companies are VAT registered Options to tax have been made on all properties Group not currently involved in importing or exporting All returns and payments have been made on time except for one return over five years ago (HRU plc) when the direct debit failed to work. No penalties were charged by HMRC as it was due to the system failure by the bank Returns all submitted through MTD A VAT visit at HRU plc two years ago did not identify any issues and no assessments were made
Corporation Tax	All companies pay tax at 25% All returns and payments have been made on time
Other information on file	Current group structure and details of shareholdings (prior to Project Amethyst)

NB:

All companies are UK registered unless otherwise indicated. Shareholdings outside the UK and the USA are ignored, with the exception of HRU Munich GmbH. All subsidiaries are 100% owned by their immediate parent company.



2. It is November 2025.

You are a manager in a firm of Chartered Tax Advisers. Your client is A&B Care Ltd, which operates a number of nursing homes in the UK. It is considering the purchase of a former office building together with some land in Lincolnshire to convert into and operate as a nursing home.

The partner responsible for the client, Fred Brown, has received a letter (**EXHIBIT A**) from the Chief Executive Officer of A&B Care Ltd asking your firm to advise him on two alternative proposed methods of acquiring the building.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from A&B Care Ltd to Fred Brown

EXHIBIT B: Extracts from Surveyor's Report on Nursing Home Development

EXHIBIT C: Pre-seen information

Requirement:

Prepare a letter to the Chief Executive Officer of A&B Care Ltd which recommends which route to follow for the acquisition of the building, providing reasons for your advice.

EXHIBIT ALetter from A&B Care Ltd to Fred Brown

Fred Brown
Northern Tax Advisers
1 Central Place
Anytown
AS1 1AB

A&B Care Ltd
First Street
Anytown
AD12 4FG

31 October 2025

Private & Confidential

Dear Fred,

As you know, we are keen to add to our portfolio of nursing homes and we have the opportunity to purchase a derelict former office building in Grantham and an adjoining piece of land (which is separate from the building) from the same seller. The cost of the office building is £2,500,000 and the cost of the adjoining land is £500,000. Both values are exclusive of VAT. A deposit of 10% of the purchase price will be payable on exchange of contracts with the balance payable at completion. We understand that the seller has opted to charge VAT in respect of both the property and the land and therefore VAT will be chargeable in addition to the price.

The building will be converted to and fitted out as a nursing home according to our usual specifications. In accordance with our commitment to eco-policies, we will be installing solar panels to generate electricity with any surpluses sold to the grid. It is expected that the amount of electricity generated for sale will account for around 20% of the solar panels' output but will only represent 2% of our total turnover.

We have two possible routes to acquire this building. The first involves the direct purchase of the property and land by us. We will then engage contractors to carry out the conversion of the existing building. Our contractors will of course charge us VAT. As you know we are not registered for VAT since our income is exempt from VAT and as a result, VAT is a significant cost for our business.

It has however been suggested to us that as an alternative second route, we could set up a new development company for the conversion of the building to a nursing home. The company would be entirely owned by A&B Care Ltd and would acquire the building, engage contractors for the work and then sell the completed nursing home to A&B Care Ltd at its market value of £9,000,000 or, if possible, at a lower price which still covers costs. A&B Care Ltd will then operate the nursing home. The development company will not employ any staff but A&B Care Ltd will provide administration staff to the development company for the period of the development. Our HR department has examined this proposal and suggested it would be possible to amend the employment contracts of the members of the staff so that they are employed jointly by both A&B Care Ltd and the new development company. It is understood that this will avoid any VAT issues arising from the recharge of a proportion of the staff payroll costs, which we estimate would be about £180,000 in total. A&B Care Ltd will also rent some office space to the development company for 18 months for £2,000 per month.

It is expected that the development will be completed by our financial year end of 31 March 2026.

I have attached the surveyor's estimated cost for the work and his opinion of the value when completed (**EXHIBIT B**) and would be grateful if you could advise us on the possible advantages of using a controlled development company to carry out this project.

I look forward to hearing from you.

Yours sincerely

Peter Smith

Chief Executive Officer
A&B Care Ltd

EXHIBIT BExtracts from Surveyor's Report on Nursing Home DevelopmentEstimate of costs for the development of the nursing home

We set out below an estimated breakdown of the VAT exclusive costs of developing the nursing home in Grantham:

	<u>£000s</u>
Professional fees	40
Internal demolition, clearance and other preliminaries	150
Ground floor area building works	830
Lift	100
Ovens, fridges and other white goods (including fitting cost of £10,000)	40
Structural work to create bedrooms (24)	250
Fitted bedroom furniture (including fitting cost of £25,000)	125
Structural work to create en-suite bathrooms	150
Baths, walk-in showers, wash-basins and toilets (including fitting)	100
Fire doors throughout (including fitting)	30
Smoke alarms (including fitting)	25
Roof	300
Solar panels	200
Lighting	75
Plumbing and heating	225
Access roads and parking	<u>100</u>
Total	<u>2,740</u>

Estimated Value on Completion

As instructed, we have considered the likely market value of the nursing home once completed. In our opinion, the market value of the property in the current market would be £9,000,000.

Prepared by

C & D Surveyors
10 Central Place
Anytown

EXHIBIT CPre-seen information

<u>Client Name</u>	A&B Care Ltd [Been a client for a number of years]
<u>Background</u>	Company set up over 15 years ago Single company - not part of a group Five shareholders The major shareholders are Peter and Viv Smith who are husband and wife – both UK resident Peter Smith works full time in the company as Chief Executive Officer. He is 58 years old, with a salary of £150,000 per year. He has a company car, permanent health insurance, and private medical insurance Viv Smith (53 years old) works part time (20 hours per week) for the company carrying out administrative duties, including filing of Companies House accounts, uploading of salaries for staff, reporting real time information to HMRC, credit control chasing up debtors, and resolving HR issues. She earns £25,000 per year Peter and Viv Smith have one grown up child. Saturn Smith is 33 years old and works for the company as a qualified nurse The other three shareholders are not related to Peter and Viv Smith or each other – one is non UK resident
<u>Business</u>	The company operates a number of private nursing homes in the UK Five homes in Lancashire Three homes in Yorkshire One in Lincolnshire One manager runs each home The company employs 300 staff across the company and uses 'bank' staff from an agency at times to ensure that the staff to resident ratio is within Care Quality Commission (CQC) guidelines Each home always has a qualified nurse on every staff shift A contract with another company provides ad hoc assistance from a doctor when needed Staff comprise carers with NVQ level 2 and other support staff Most residents are there by virtue of old age and are long term residents, but spare capacity is occasionally used by the NHS for elderly patients who have suffered strokes, for example, and are in 'step-down' rehabilitation for a short period before returning to their own homes. Where this happens, the NHS pays the care homes direct. Payments are made monthly in arrears and generally are paid at a daily rate per resident. Depending on the resident's needs and medical equipment/nursing resources required, the payment fluctuates between £150 to £800 per day Activities are run in-house but occasionally external companies are used, for example, therapy alpacas that are brought in to 'meet and greet' the residents
<u>Other info</u>	Company year end is 31 March All Corporation Tax returns are up to date One HMRC visit re Corporation Tax five years ago - reported no errors All Companies House filings up to date Peter and Viv Smith are hoping to retire when Peter is 65 and will sell their shares in the company at this point

ANSWERS TO CASE STUDIES**1. HOTELS R US****LETTER TO CARL CREEVY**

Carl Creevy
Hotels R Us Group plc
Banford Retail Park
Commercial Street
Ringford RG7 1AA

Gillams Chartered Tax Advisers
High Street
Longford LG1 1JS

13 May 2025

Our ref: HRU/JH/1032
Your ref: CC

Dear Carl,

PROJECT AMETHYST

Thank you for your letter dated 20 April 2025, concerning the restructuring of your group. I trust that my firm will be able to assist you in this regard.

New Client Procedures

We have already sent you our letter of engagement but wish to comment briefly on the new client procedures involved. As we will be acting alongside your existing advisers for this one-off project, we have written a professional courtesy letter to them. Having now received their response, we can confirm there are no professional reasons why we should not act for you, and we are able to proceed with the engagement.

Please note that the engagement letter we have sent you sets out clearly the respective areas of responsibility between ourselves and Willing Workers & Co, and also the extent of our communication with that firm.

Tax Report

I have enclosed a report which provides advice on whether to structure the deal as a share sale or an asset sale. I have started the report by setting out my understanding of your circumstances. Please confirm that my understanding is correct.

I trust the advice given in this report is helpful. Please do not hesitate to contact me if you would like to discuss any matters further.

Yours sincerely

Jeremy Ryan

Tax Partner

REPORT

Client: Hotels R Us plc (HRU)
Subject: Advice for HRU arising from Project Amethyst
Date: 13 May 2025

INTRODUCTION

This report has been prepared to provide advice to the Board of Directors of Hotel R Us plc on the proposed transaction known as 'Project Amethyst', as set out in the letter from Carl Creevy, dated 20 April 2025. It has been prepared on the basis of the facts set out at the beginning of this report, and no liability can be accepted if the facts communicated to us are incorrect.

We understand that HRU is proposing to sell its UK hotels to a third-party purchaser, subject to the hotels remaining within the HRU brand, by means of a franchise agreement. Sale will be for cash, and the assets/shares will be sold at open market value. At present you are uncertain whether an asset sale or share sale would be preferable and require guidance in this area.

EXECUTIVE SUMMARY

We would recommend that HRU sells shares in the companies as opposed to selling individual assets.

- 1) A share sale will result in around £9m more net receipts than an asset sale due to chargeable gains on the buildings and balancing charges on the disposals of plant and machinery, that arise with an asset sale.

A share sale is a 'clean break', and the purchaser will take over any existing liabilities in the companies. HRU would have no further liabilities that might arise (subject to any agreed warranties/indemnities).

A share sale would result in lower stamp taxes for the purchaser which might make this structure more attractive to them, as stamp taxes are not immediately deductible against profits/income.

- 2) There is no VAT on either a share sale or an asset sale (where the transfer is of a business as a going concern). However, a share sale is likely to result in irrecoverable VAT for HRU, which would need to be factored in.
- 3) A 'hive across' is recommended prior to the share sale, so that trading losses are preserved and the buyer will purchase a company free of liabilities such that HRU will not need to provide warranties/indemnities for past liabilities that might arise.
- 4) The transfer of the UK hotel insurance business risks for IPT can be made under the transfer of a going concern provisions. HRU Insurance Services Ltd would lose any entitlement to a credit of insurance premium tax where the transferee subsequently makes a refund of premiums.

Where the IPT registration number is transferred in conjunction with the TOGC, any IPT liabilities originally the responsibility of HRU Insurance Services Ltd become payable by the transferee instead. This is a voluntary process to be agreed by both parties.

- 5) For the loyalty scheme operating in HRU hotels following the hotel disposal, the income will be subject to output VAT and the payments by HRU Group Services Ltd will be for directly related costs and input tax should be deductible.

Our detailed reasons for this are set out below.

The Appendix, attached to this report, details the likely net receipt for HRU if a share sale or an asset sale were to take place.

FROM THE PERSPECTIVE OF THE VENDOR, HRU:

(A) Share Sale v Asset sale

(A1) Charge to tax on disposal of assets

Share Sale

If shares are sold, a gain chargeable to corporation tax arises from any increase in share value. In your case as the companies were set up with a minimal amount of share capital, then a gain of £58 million would arise.

It is possible, however, that the substantial shareholdings exemption (SSE) would apply. If so, this would mean that the gains arising from the share sales would be exempt from corporation tax. For this to be the case, HRU would need to be sure that all the hotels owned by the vendor companies were in use for a trade conducted on a commercial basis with a view to the realisation of profits (rather than being closed or subject to refurbishment or simply holding the property as an investment so that the companies are trading companies) for the minimum period of ownership of 12 months (out of a prior six-year period).

If HRU sells shares rather than assets, there is no requirement to make adjustments for balancing allowances or balancing charges in the capital allowances computation, ie there is neither a profit nor loss for tax purposes as no assets have been sold.

With a share sale HRU would generate post tax receipts of £58m.

Asset sale

In an asset sale, each company would dispose of their individual assets. Capital gains would arise on the buildings and a balancing charge would arise on the loose plant and machinery. Net post-tax receipts would be £48.6m. These would then need to be extracted from the companies. If they were extracted by way of capital, ie a distribution after the appointment of a liquidator, then a capital gain would arise. This could be covered by the SSE detailed above.

Selling the shares would generate over £9m more than selling the assets.

(A2) Liabilities

A share sale is a 'clean' sale as only one asset, the shares themselves, are being sold.

However, as the purchaser will be taking on the entire history of the companies, they are likely to seek significant warranties and indemnities should unanticipated liabilities arise.

The share sale also means that HRU does not have to concern itself with making staff redundant and the £3m liability that this would produce. It also means that if staff were to pursue claims for unfair dismissal due to redundancy, these would be a liability for the purchaser and no longer be HRU's concern.

In an asset sale, the past liabilities for any wrongdoing by the companies remain with the companies themselves. This means that the purchaser won't be as concerned with such detailed warranties and indemnities, as they will be buying the individual assets that they want. HRU will still be liable for any past wrongdoings of all the companies in the group, for example, underpayments of VAT or Corporation Tax.

(A3) Other points

Assuming that the purchaser continues to run each hotel within an individual company as at present, if any of those companies have trading losses, they may be able to use them against future profits within that company. This could make a share purchase attractive to them. Losses cannot be used on an asset purchase, as they belong to the company itself, which generated them. Losses cannot be 'sold' to a new group (although after five years there is the potential for losses to be group relieved to the new group, where a share purchase occurs, where those losses arose after 31 March 2017).

Stamp Duty/Stamp Duty Land Tax (SDLT) are a liability for the purchaser. However, the amount of these taxes can influence a purchaser of the route they wish to choose and can result in a negotiation for a lower price if the difference were to be substantial.

Stamp Duty would be payable on the entire share price of £58m at 0.5%, which is £290,000.

If an asset sale were to occur, then only the buildings would incur SDLT and £2,989,500 would be payable (£60m purchase: £150,000 x 0% + £100,000 x 2% + £59,750,000 x 5%). As the buildings make up the majority of the sale proceeds then in this case the purchaser might be more preferable to a share sale occurring.

In a share sale, the purchaser will not get any immediate tax relief for the price they pay as it is a capital cost and deductible against any future sale proceeds, should they decide to sell the shares. With an asset sale the purchaser will obtain tax relief for the loose plant and machinery by way of capital allowances, which might go part way to mitigate the additional SDLT they would incur.

(A4) VAT

Ordinarily, transfers of existing shares for a consideration are exempt supplies provided that the supplies occur in the course of a business activity. In such cases, the input tax that relates to the transfer will only be recoverable to the extent that the shares have been sold to purchasers outside the UK. Therefore, given that the purchaser will be a UK company, the VAT incurred on professional costs relating to this transaction will not be recoverable.

If an asset purchase were to occur then the transfer would be likely to be a 'transfer of a going concern' for VAT purposes and outside the scope of VAT. Costs incurred in relation to this transfer are recoverable as though it were a taxable supply. There are options to tax on all of the buildings. With a share sale as the shares are being sold then the buildings remain under the same ownership and therefore there is no supply of them for VAT. If an asset sale were to occur then the purchaser would have to opt to tax each of the buildings in order that they receive them 'outside the scope'. They would need to do this to ensure that Stamp Duty Land Tax was not increased as it is due on a VAT inclusive figure.

For the asset sale route, the property-owning companies within HRU will become shell companies after the transaction. On the assumption that all these companies are within the UK VAT group, there will be no need for these companies to deregister. Alternatively, for a hive up or share sale, various companies will leave the VAT group and HMRC will need to be notified of these changes.

Given the level of VAT payable annually on its VAT returns, the HRU VAT group is currently required to make monthly payments on account of its quarterly VAT liability. Following the disposal of hotels, the HRU group will need to re-assess its requirement to make payments on account, and agree this with HMRC if appropriate.

In summary, a share sale has the advantage of a clean sale of a single asset and if the substantial shareholding applies, there is no tax charge for HRU.

(B) Hive across**Tutorial Note:**

Candidates will be given credit for any appropriate suggestions on structuring the transaction.

HRU asked us to consider whether there would be an alternative structure for the sale.

An alternative is for the vendor to incorporate a new subsidiary company under HRU plc. The trade and assets of the property-owning companies would then be transferred to the newly formed subsidiary of HRU plc. The new subsidiary is 'clean', ie free from any history of contingent liabilities. The vendor transfers the trade and assets to the new company, leaving the original companies containing the liabilities a 'shell'. The transfer is at nil gain, nil loss for capital gains tax purposes as the transfer is within a capital gains group. The new company carries on the trade for a finite period, before the shares of the company are acquired by the ultimate purchaser.

There will be a de-grouping charge when the newly formed subsidiary company is sold but this will be added to the sale proceeds of the share sale and may therefore be tax free within the substantial shareholding exemption (provided the 12-month ownership period is met, as mentioned above).

A hive across has the added advantage of preserving any trading losses in the target businesses.

(C) Other tax issues

Post-acquisition losses of HRU's property owning companies may be surrendered as group relief to any claimant company within the purchaser's group with available profits. Where the accounting periods of the claimant and surrendering companies do not end on the same date, a calculation must be made to offset losses against profits of the corresponding accounting periods. Subject to special calculation rules, where losses are not used by a company in a year, it is possible to surrender brought forward losses to another group member.

HRU's property owning companies may have incurred capital losses in periods prior to transfer. These may be offset against future gains arising in the purchasing company.

(D) IPT considerations

HRU Insurance Services Ltd currently provides building insurance for all HRU hotels globally. The purchaser would like to continue to receive insurance cover for the UK hotels purchased through the same insurers.

The required restructuring involves separating the existing insurance business into the two types of risk; ie between UK hotels and overseas hotels. The next stage would be to keep the existing insurance business for overseas hotels intact and to transfer the business comprising the UK risks to the purchaser.

A contract of insurance relating to a risk situated outside the UK is exempt from IPT. Therefore, if the business comprising UK risks were to be transferred to a new company, the IPT status of the original insurance business would change. It would no longer intend to receive insurance premiums liable to IPT and would therefore have to deregister. The business would have to notify HMRC of this change of intention within 30 days so that deregistration could be effected.

For the transfer of the continuing UK risks, it would be advantageous for the transfer to fall within the rules for a transfer of a going concern (TOGC) for IPT purposes. This may

happen where a taxable insurance business, or a part of a taxable business capable of separate operation, is transferred as a going concern to another company.

The use of the TOGC provisions is voluntary and both the transferor of the business and the transferee must agree to the use of them. What is transferred will normally include records, customers, assets and liabilities. The business should be carried on by the transferor up to the date of the transfer and be capable of being carried on by the transferee.

The transferee can, if it wishes, request use of the existing registration number of the transferor, but the two parties must agree to certain conditions, namely that the transferee becomes liable to be registered and the IPT registration of the transferor is cancelled.

If the transferee does not wish to use the existing number, liability must still be notified to HMRC. The transferee will then be issued with a new registration number, and the registration number of the previous owner of the business will be cancelled.

The consequences for the transferor, HRU Insurance Services Ltd, are as follows:

Where a taxable insurance business is transferred as a TOGC, (whether or not the IPT registration number is also transferred), the transferor loses any entitlement to a credit of insurance premium tax where the transferee subsequently makes a refund of premiums.

Where the IPT registration number is transferred in conjunction with the TOGC, any IPT liabilities originally the responsibility of the transferor become payable by the transferee instead.

(E) Loyalty scheme

The litigation to which HRU refers in its letter was taken by Loyalty Management UK Ltd (now called Aimia).

Aimia ran a loyalty scheme within the UK whereby members of the public could accumulate Nectar points when they bought various qualifying goods and services from participating retailers. The members of the public could exchange their Nectar points for rewards of goods and services from specific suppliers, known as 'redeemers'. The redeemer notified Aimia of the number of points redeemed on a regular basis and received payment from Aimia as compensation for the expense incurred in supplying the rewards.

Aimia viewed its outlay as payments for redemption services (plus VAT) made to it by the redeemers. Aimia made a challenge through the Courts to recover the VAT accounted for on the redemption payments as its input tax.

The view of HMRC was that the redemption payments represented a third-party payment for the supplies of reward goods. Therefore, there was no supply to Aimia and thus no VAT repayment was due.

The CJEU decision appeared to have gone against the taxpayer. Nevertheless, it was for the referring court to come to a final decision; the Supreme Court held (by a 3-2 majority) that the input tax was deductible.

The Supreme Court believed that the CJEU had not been given the full facts and as such their decision was restricted in scope. In accordance with the general rules of VAT, if Aimia is allowed to deduct the input tax on redemption, the system will collect the exact proportion of the consideration paid by the final consumer. If Aimia had to account for output tax on the issue of points, but could not deduct input tax on redemption, the VAT collected would not be proportional.

The input tax directly incurred in making a taxable supply was recoverable under general principles. Without that cost Aimia would not have been able to secure their income and as such the input tax had to be recoverable.

Note that this principle was also applied in a similar case heard by the Upper Tribunal involving Tesco Clubcard points in January 2019. The tribunal agreed with the taxpayer in that case too.

Therefore, turning to the loyalty scheme operating in HRU hotels. Currently, HRU Group Services Ltd receives income from HRU UK hotels when points are issued and makes redemption payments to the HRU UK hotels for points redeemed at the hotels. The income and payments made are for intra-VAT group supplies, and therefore no VAT is chargeable on either. However, following the hotel disposal, the income will be subject to output VAT and the payments by HRU Group Services Ltd will be for directly related costs and hence input tax should be deductible.

CONCLUSION

A share sale will be preferable to HRU.

Please see appendix for calculations of post-tax profits from each route.

APPENDIX

Net proceeds from a share sale compared with an asset saleNet proceeds from a share sale

	<u>Share sale</u>
Proceeds from sale of shares	58,000,000
Tax on receipt (N1)	0
Further liabilities for HRU (N2)	<u>0</u>
Net proceeds	58,000,000

NotesN1

Provided that the substantial shareholding exemption applies, there will be no Corporation tax on the receipt.

N2

As the shares are sold then all liabilities pass to the purchaser and become their liability.

Net proceeds from an asset sale

	<u>Asset sale</u>
Proceeds from sale of all assets (N1)	62,000,000
Proceeds from debtors	50,000
Tax on balancing charge (N2)	(437,500)
Tax on capital gain (N2)	(10,000,000)
Redundancy costs	<u>(3,000,000)</u>
Net proceeds	48,612,500

NotesN1

The properties and loose plant and machinery amount to £62 million (£60m + £2m)

N2

Tax on balancing charge of £437,500 [£1.75m (£2m-£250k) liable to Corporation Tax at 25%].

Tax on Capital Gains on the buildings of £10m [£40m (£60m-20m) liable to Corporation Tax at 25%].

Tutorial Note:

On cessation of trade a maximum of four times the statutory redundancy payment is deductible from trading profits. This deduction would save corporation tax at a rate of 25%. No information was provided in the question to be able to calculate this deduction.

ASSESSMENT NARRATIVE FOR HOTELS R US**Structure**

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	30%	Identifying the VAT and direct tax consequences of a share sale and applying to the scenario
2	30%	Identifying the VAT and direct tax consequences of an asset sale and applying to the scenario
3	10%	Identifying the possibility of a hive across and its consequences
4	15%	Commenting on the IPT considerations and the application of a TOGC
5	15%	Commenting on the loyalty card issues and applying case law to the information

A grade of 0, 1, 2, 3, or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	40%	Weighing up a comparison between the post-tax profits on a share sale
2	30%	Weighing up a comparison between the post-tax profits on an asset sale and comparing with the share sale and concluding on the best route
3	30%	Advising about the alternative to 'hive across' the business assets

The final grade will be determined for this skill in the same way as for Identification and Application.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		

2. A&B CARE LTD

Peter Smith
A&B Care Ltd
First Street
AD12 4FG

Northern Tax Advisers
1 Central Place
Anytown
AS1 1AB

2 November 2025

Dear Peter

ACQUISITION OF SITE FOR NEW NURSING HOME

Thank you for your letter of 30 October 2025 and its enclosures. We have reviewed the alternative proposals for the acquisition of the site in Grantham. We have set out below the VAT and tax consequences of each route and attached appendices comparing the after tax cost of both routes, based on the estimated value of the completed development.

Please note that the advice below is based on the information you have provided to us. If any of that is inaccurate or subject to change then this might affect our advice. This advice is intended for A&B Care Ltd's sole use and is not to be disclosed to any other party and cannot be relied on by any other party.

SUMMARY OF ADVICE

Although the use of a separate development company seems attractive at first glance, on closer scrutiny it is clear that the corporation tax payable on the development profit by the development company will exceed the amount of VAT that would be incurred if you were to purchase the site directly through an operating company. In coming to this conclusion, we have taken account of the fact that no VAT will be payable on the acquisition of the site and, crucially, most of the VAT incurred by your operating company will benefit from the reduced rate of 5% (and some potentially at 0%).

If A&B Care Ltd buys the site for the nursing home and engages contractors directly, we calculate the estimated VAT and SDLT cost to be £280,250. If a connected development company is used and the nursing home is purchased at a price of £9,000,000, we calculate that the estimated corporation tax, SDLT and irrecoverable VAT payable to be £1,045,375.

The impact of capital/structures and building allowance variations on the cost comparison would be negligible.

The use of a development company will also involve set up and financing costs as well as consideration of other commercial risks which are set out below.

For the reasons set out above, we do not recommend the use of a separate development company for the care home.

DEVELOPMENT OF NURSING HOME

1. Value Added Tax implications

(1.1) Direct acquisition and conversion by A&B Care Ltd

Acquisition of building:

Since the seller has exercised an option to tax over the building, in normal circumstances VAT would be payable on any sale. However when an opted property is sold for use as a nursing home following conversion by the purchaser, it is possible for the care home operator to prevent a VAT charge on the sale.

This can be achieved by serving a statutory notice on form VAT 1614D on the seller, certifying that the future use of the building will be for a 'relevant residential purpose' as a nursing home. We have enclosed a form VAT 1614D for your use and recommend that you complete this and serve it on the seller. The purpose of this relief is to prevent VAT falling as a cost on the care sector.

The form must be served on the seller before 'the price is legally fixed' to use the expression which appears in VAT law. This is usually accepted as exchange of contracts but for the avoidance of any doubt, we would advise you to serve the form before signing any agreement.

If the form is served after exchange of contracts but before completion, it will be at the discretion of the seller whether he accepts the form or charges VAT on the sale. You should ensure therefore that your solicitor has a copy of the form and is aware of the requirement to serve it on the seller in good time as part of the purchase documentation.

The reason for the legal requirement for the form to be served before the price is fixed is that by serving the form, the sale of the land will be exempt from VAT. This may have implications for the seller if he has reclaimed VAT on the purchase of the land or any subsequent work in connection with the land.

For example, if the seller purchased the land five years ago and reclaimed VAT of say, £200,000 on the purchase, he will be required to repay £100,000 VAT to HMRC as a result of the exempt sale. The VAT exempt nature of the sale will also make it unlikely that he will be able to reclaim any VAT on the professional costs of the sale.

If the seller incurs additional cost as a result of an exempt sale rather than charging VAT as he intended, he may wish to adjust the sale price to compensate for this or he may wish to include a clause in the sale contract requiring the purchaser to indemnify him against any additional VAT cost arising as a result of the exempt sale. Obviously the extent to which A&B Care Ltd may wish to compensate the seller in this regard is a commercial matter for you both.

Treatment of deposit:

The payment of the deposit on exchange of contracts will be treated in the same way as the balance of the purchase price provided form VAT 1614D is served on the seller before the deposit is paid by you.

Conversion of building:

The conversion work will be subject to VAT. However the reduced 5% rate of VAT applies to most work done in the course of the conversion of a building into a nursing home, subject to satisfying certain conditions. (There is potentially a 0% VAT rate on the installation and supply of energy saving materials, which would include the solar panels and I cover this in more detail below.)

Prior to the conversion work, the building cannot be used for a relevant residential purpose, for example as a nursing home or residential children's' home. This condition is satisfied in your case.

Statutory planning permission must have been granted. We assume this will be the case.

The services are 'qualifying services'. Qualifying services covers work done to the fabric of the building in the course of the conversion. It includes repairs and improvements and also any extensions. Materials supplied as part of the conversion services also are eligible for the reduced rate provided they are materials which builders usually install. For example, baths and showers would qualify but fitted bedroom furniture and kitchen appliances are subject to VAT at 20%.

Before the work commences, A&B Care Ltd must provide the contractor with a certificate confirming that the converted building will be used as a nursing home. I have also enclosed a draft certificate for you to complete and sign. Please be aware that A&B Care Ltd is responsible for the accuracy of the information provided to the contractor on the certificate and there are financial penalties for the issue of a false certificate.

Please note that construction of means of access to the nursing home will also qualify for the reduced rate.

Professional services do not usually fall within the scope of the reduced rate and will be subject to VAT at the full rate. However, if a single contract for all conversion services is provided by your builders (often called a 'design and build' contract), these can be at the reduced rate as they are treated as being ancillary to the main conversion works contract.

The installation of solar panels will qualify for the reduced rate as part of the conversion to the nursing home, where it is subsumed into the main single supply of services from the contractor. Installation of solar panels (including the materials themselves) are subject to the 0% rate of VAT. However, in order to obtain this, it would need to be a separate supply in its own right. If you contract for these supplies separately and your contractor charges a separate fee, they would be carrying out the work independently of the rest of the conversion. However, this could be subject to challenge by HMRC where it is artificial, and they could argue that you are receiving a single supply of the entire conversion costs. If you register for VAT in relation to the sale of electricity (see below) then if the costs of the solar panels are simply subsumed into the main supply by the contractor then you would be charged 5% VAT but would also be able to recover the VAT that relates to the sale of electricity (see paragraph below).

Once A&B Care Ltd is VAT registered as an intending trader (see below), VAT will be payable on the sale of electricity to the grid. The export tariff agreement will almost certainly provide for this. If you are charged VAT on the solar panels (as above), then you will be able to reclaim a small amount of the VAT paid on the installation of the solar panels. The panels will serve two purposes; power for the care home which provides VAT exempt care services and power into the grid which is subject to VAT.

The method of calculating the proportion of VAT which can be reclaimed on purchases which provide exempt services and also services which are subject to VAT is a complicated area and beyond the scope of this letter. Broadly however you may be able to reclaim a proportion of the VAT incurred on the solar panels which corresponds to the value of electricity supplied to the grid as a percentage of your total turnover.

Alternatively, you may be able to arrange a special agreement with HMRC whereby you calculate the percentage based on the use of the output of the panels. We have assumed the latter for the purpose of our calculations but in any event the amount of reclaimable VAT will not be significant in the context of the comparison of the methods of acquisition.

Appendix A shows the potential VAT cost.

Usually the recipient has to account for VAT (at the 5% or 20% rate as appropriate) on supplies which fall within the 'domestic reverse charge' (DRC) legislation. Where A&B Care Ltd is not VAT registered then the supplier would continue to account for the VAT. Once A&B Care Ltd becomes VAT registered, it would account for the VAT, unless it provides 'end user' status to the contractors. There would be cash flow benefits for operating the DRC itself due to the later time that the VAT would appear on A&B Care Ltd's own VAT return than having to pay the VAT upfront on the contractor's invoices. Architect and consultant fees do not fall within the DRC. Manufacturing goods offsite and delivering them do not fall within the scheme.

(1.2) Development by a connected development company

A&B Care Ltd will have to set up a new wholly owned subsidiary which will be required to register for VAT with the intention of making a zero-rated sale of a building to be used as a nursing home, converted from a building which has not been used for a residential purpose. HMRC will want to see evidence of the company's intention, for example, planning permission and contracts. This must be a separate VAT registration from A&B Care Ltd.

Acquisition of building:

It will still be possible for the development company to prevent the VAT charge on the deposit and purchase price of the building since form VAT1614D can also be issued by a person converting a non-residential building for use by a third person as a nursing home. This may increase the seller's VAT cost. Any VAT would be recoverable by the development company in any case, but the use of the certificate will reduce the SDLT cost since this will be applied to the price without any VAT and improve cash flow.

Conversion of building:

Provided A&B Care Ltd produces a certificate to the development company confirming that the converted building will be used as a residential nursing home, before the transfer of the property to A&B Care Ltd, the sale to A&B Care Ltd will be zero-rated. The certificate is slightly different from the certificate to obtain conversion services at the reduced rate mentioned in the previous section and I have enclosed a form of the certificate for your use.

Since the sale to A&B Care Ltd will be zero-rated, VAT will be recoverable by the development company on both goods and services used in the conversion work. However, the contractors will have to charge the full rate of VAT (20%) on their services rather than the reduced rate. This is because the development company will not be using the nursing home and therefore cannot give a certificate of use to the contractors.

Since the development company can recover this VAT, there is no tax cost other than in terms of cash flow. Even this can be minimised if the development company elects for monthly VAT returns.

VAT will be not recoverable by the development company on the cost of bedroom furniture and kitchen appliances but presumably this will be included in the price of the onward sale to A&B Care Ltd.

The provision of administration and other staff from A&B Care Ltd to the development company will in principle be subject to VAT if A&B Care Ltd are registered for VAT. You are correct that it might be possible to avoid a VAT charge if the employees were jointly employed by both companies. However, this would involve a change to their employment contracts and would effectively give them two sets of employment and pension rights etc. Since any VAT charged will be recoverable by the development company, it seems unnecessary to use joint contracts of employment. You could simply register for VAT and recharge for the staff time, with VAT. This will also assist the overhead VAT recovery in

A&B Care Ltd. Consideration should also be given to recharging for management and other admin time.

The provision of office space from A&B Care Ltd to the development company would be exempt from VAT. It would be possible for A&B Care Ltd to opt to charge VAT on the rent. This VAT would be recoverable by the development company but since VAT on the building cost will be recovered by the development company, there is no advantage for A&B Care Ltd in opting to charge VAT.

As mentioned above the domestic reverse charge applies to certain building and construction services. The development company would be responsible for accounting for VAT on these supplies as opposed to the suppliers (with recovery of input tax where they relate to a taxable supply – see below).

Transfer of nursing home to A&B Care Ltd:

As noted, the transfer of the building will be zero-rated.

There is a legal requirement to notify any VAT avoidance arrangements to HMRC, for example under the Disclosure of Tax Avoidance Schemes for VAT and Other Indirect Taxes (DASVOIT). If there were a duty to disclose these arrangements, in certain circumstances, there are penalties for failure to disclose to HMRC schemes which produce a tax advantage.

However, HMRC accepts that using a development company is a legitimate tax planning tool and does not require disclosure under the rules.

2. Corporation tax

The trading profit which the development company makes on the development on the resale of the property will be subject to corporation tax at 25%. See appendix C for a calculation.

The intercompany recharges should be at market value to avoid any transfer pricing issues.

If the nursing home is sold for less than market value, the profit immediately taxed in the development company would be uplifted so as to reflect a market value price. For tax purposes the property is appropriated from current assets at market value and then transferred between group companies at no gain/no loss.

3. Capital/structures and building allowances

Some measure of tax relief will be available to A&B Care Ltd in respect of the building costs and plant and machinery in the converted nursing home.

Plant and machinery allowances

Expenditure on 'plant and machinery' will qualify for capital allowances. An annual writing down allowance of 18% is generally available. Other plant, (known as integral features) attract a reduced special rate of 6%. Whilst fire alarms qualify as plant and machinery, fire doors will not qualify for capital allowances as they are considered to be part of the building. They will be included in the structures and buildings allowance below. Legislation provides that heating, lighting and lifts are treated as integral features.

The annual investment allowance is £1,000,000 per annum and therefore all of the £957,250 expenditure given for the year ended 31 March 2026 will, in theory, qualify for the 100% allowance (see appendix B for suggested calculation). The final amount will depend on the extent of any other capital expenditure made by A&B Care Ltd in the accounting period which could use some or all of the annual investment allowance.

Tutorial Note:

Expenditure by a company on new and unused plant and machinery is eligible for 100% first year allowances (“full expensing”) if would qualify for the general pool or at a rate of 50% if would qualify for the special rate pool. However, the company would be better off claiming AIA where available due to the balancing charge on disposal proceeds and moreover the improved rate when compared to special rate pool expenditure.

Structures and buildings allowance

Allowances for the costs of the building are available where the work relates to the structure of the building itself. A 3% straight line allowance is available for structural works for the conversion of the building. Structural works such as creating the bathrooms would fall within this allowance.

A similar level of capital/structures and building allowances will be available to A&B Care Ltd if the development is carried out through a separate development company, although in this case the amounts will be based on the cost to the development company net of recoverable VAT. Overall, the difference is small, and this will not affect the decision as to which route to follow.

Appendix B sets out the expenditure which will qualify for the structures and buildings allowance (and capital allowances above).

It may be also that a detailed review would reveal other items eligible for a capital allowance claim.

4. Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax (SDLT) of £114,500 will be payable on the purchase of the building (see below for SDLT due on the land), on the assumption that VAT is not charged. This is based on:

<u>Lower Limit</u>	<u>Upper Limit</u>	<u>Amount</u>	<u>Rate</u>	<u>£</u>
0	150,000	150,000	0%	0
150,000	250,000	100,000	2%	2,000
250,000	2,500,000	<u>2,250,000</u>	5%	<u>112,500</u>
		£2,500,000		£114,500

There will also be no SDLT to pay on the sale since the development company is wholly owned by A&B Care Ltd and the transfer of the property will fall within the SDLT relief which applies to transaction between companies under 75% or more common control.

5. Other issues

A&B Care Ltd will have to set up a new wholly owned subsidiary with appropriate Articles to allow it to carry out the development. The company must be registered at Companies House and you must also notify HMRC. This should be a relatively inexpensive process.

The new company will require finance to undertake the development. We assume A&B Care Ltd will obtain loan finance from a financial institution and provide finance to the development company for each stage of the development. Interest paid on the funds borrowed by A&B Care Ltd will be deductible for tax purposes under either route.

There will be other issues to consider when setting up a separate development company, particularly in terms of liability. If a defect emerges in the building work, A&B Care Ltd’s first recourse would generally be against the development company which then would

have to bring an action against the responsible contractor. However, A&B Care Ltd could set up collateral warranties so that it could take direct action against the contractor. The development company will need to arrange adequate insurance in this area.

You would also need to consider the appointment of advisers to the new company. Provided the new company is a 100% owned subsidiary of A&B Care Ltd, it is likely that there would be sufficient mutuality of interest between the two companies for us to act as advisers. We would need to extend the terms of our engagement to include the new company.

If you would like to discuss this further, please do contact us.

Yours sincerely,

Fred Brown

APPENDIX A

Calculation of potential tax cost of development by direct purchase by A&B Care Ltd

Irrecoverable VAT*	£
Professional fees*	8,000
Conversion work (5% VAT charged)	116,750
Kitchen ovens & fridges*	8,000
Fitted bedroom furniture*	25,000
Solar panels (80% - where 5% VAT charged)**	8,000
<u>Total</u>	<u>165,750</u>

*Assuming that each supply is separate and therefore liable to its own rate of VAT (eg professional fees, kitchen appliances and fitted bedroom furniture at 20%)

**This could be nil where it is treated as a single supply in its own right and therefore would be liable to the 0% VAT rate. If it is ancillary to the main 5% supply then 20% would be recoverable by reference to taxable sales of electricity to the grid and there would be the VAT cost as shown above

Summary of potential tax cost of direct development

	£
SDLT	114,500
Irrecoverable VAT	<u>165,750</u>
	<u>280,250</u>

APPENDIX B

Schedule of potential allowances (including irrecoverable VAT)

Structures and buildings allowance:

All items other than those on plant below (assuming the professional fees are for the design of the conversion):

Professional fees (40k x 1.2) = 48k

Other (150k + 830k + 250k + 150k + 30k + 300k + 100k) x 1.05 = £1,900,500

Structure and buildings allowance are calculated at a rate of 3% per annum on a straight line basis. The allowance starts from when the building is first brought into business use.

A full 12 month period would therefore result in an allowance of:

£1,948,500 x 3% = £58,455

Capital allowances on plant and machinery:

<u>Items of plant</u>	<u>Qualifying for AIA</u> £
Solar panels (200k x 1.04*)	208,000
Plumbing & heating (£225k x 1.05)	236,250
Lighting (£75k x 1.05)	78,750
Baths, showers etc (£100k x 1.05)	105,000
Fire alarms (£25k x 1.05)	26,250
Ovens and fridges (£40k x 1.2)	48,000
Bedroom furniture (£125k x 1.2)	150,000
<u>Lift (£100k x 1.05)</u>	<u>105,000</u>
<u>Total</u>	<u>957,250</u>

* (Assuming 20% of VAT reclaimable by reference to sales of electricity to grid and that the rate of VAT on them is 5% as being ancillary to a single supply of the conversion services. Where they are a single supply in their own right, then the rate of VAT is 0% and allowances would be based on £200k - but as all expenditure is within the £1m limit then either way a full deduction is available.)

APPENDIX C

Calculation of additional corporation tax payable by a new development company

	£	£
Sale proceeds		9,000,000
Costs (excluding VAT):		
Building (including SDLT: £2.5m + £114,500)	2,614,500	
Conversion cost	2,740,000	
Irrecoverable VAT on ovens/fridges/bedroom furniture (£33k – 7k fitting)	<u>26,000</u>	
		<u>5,380,500</u>
Net profit*		<u>3,619,500</u>
CT payable @ 25%		904,875

*Capital allowances ignored as under both options, they would be available

Summary of tax cost of conversion by development company

	£
SDLT	114,500
Irrecoverable VAT	26,000
Additional corporation tax payable	<u>904,875</u>
	<u>1,045,375</u>

The disposal is created when the development company appropriates the completed development from current assets to fixed assets. The appropriation must be at market value ie £9m.

Once in fixed assets the property can be transferred no gain/no loss to A&B Care Ltd ie £9m.

ASSESSMENT NARRATIVE FOR A&B CARE LTD**Structure**

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	40%	Identifying the tax consequences of carrying out the development through the existing company and applying to the scenario
2	40%	Identifying the tax consequences of carrying out the development through a new development company and applying to the scenario
3	10%	Identifying capital/structures and building allowances available
4	10%	Identifying SDLT costs of the development and other issues if a new company is set up

A grade of 0, 1, 2, 3, or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	80%	Weighing up the information to advise about the route to choose for the new development
2	10%	Advising that capital/structures and building allowances do not change no matter which route is chosen
3	10%	Advising on SDLT and other implications for setting up a company

The final grade will be determined for this skill in the same way as for Identification and Application.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		