

TAXATION OF OWNER-MANAGED BUSINESSES

Paper aim

To enable candidates to apply the legislation and gain the detailed technical knowledge and professional skills to identify and resolve tax issues that arise in the context of owner-managed businesses. The paper covers the taxes involved with both incorporated and unincorporated businesses, except that capital gains are only included in limited and specific situations.

Candidates will be required to use technical knowledge and professional judgement to identify, explain and evaluate alternative tax treatments and to determine the appropriate solutions to taxation issues, giving due consideration to the needs of clients.

Prior knowledge

The paper is aimed at students who have had two or three years' practical experience working in taxation, together with the appropriate level of private study and/or tuition.

Method of assessment

The Taxation of Owner-managed Businesses paper will be examined by a traditional paper based assessment. The examination paper will be 3 hours 15 minutes in length of which 15 minutes will be reading time. This examination will contain questions requiring the use of communication, judgement and evaluation skills as well as an ability to understand and apply technical skills to scenarios which may affect small businesses.

The questions will be for 10, 15 or 20 marks and there will normally be five or six questions.

The only printed material that candidates may take into the exam hall is a copy of the legislation (see below). Candidates will be provided with tax tables.

The pass mark is 50%.

Syllabus

The syllabus for this paper comprises six elements:

- 1) Income Tax in relation to both self-employed individuals and the employment of individuals.
- 2) All classes of National Insurance from the perspective of the self-employed and the employer.
- 3) Certain aspects of Capital Gains Tax in relation to business assets and ownership.
- 4) Corporation Tax in relation to UK owner-managed businesses. Typically, the companies involved will have turnovers of under £5 million and the shareholders will frequently be related to one another.

- 5) Capital allowances.
- 6) Limited aspects of Inheritance Tax relating to business assets.

The detailed syllabus grid for this paper can be found at:

www.tax.org.uk/students-and-qualifications/cta-qualification/cta-prospectus-and-syllabus

At least 80% of the Taxation of Owner-managed Businesses paper will comprise material highlighted in the detailed syllabus grid as “core”.

Whilst law is not specifically examined on this paper, questions may be set which require candidates to have a knowledge and understanding of relevant legal matters within the Law Computer Based Examination syllabus.

The following learning outcomes should be read in conjunction with the detailed syllabus grid.

Learning outcomes

Candidates will be able to analyse, evaluate and calculate the tax consequences of actions for owner-managed businesses in given scenarios. This will involve advising and assisting clients in adhering to the requirements of tax statutes and relevant regulations.

In the assessment candidates may be required to demonstrate:

1) Communication skills

- a. Communicate complex tax issues in a format appropriate to the recipient who may be an external client, a fellow professional, or an internal colleague.
- b. Prepare suitable advice to explain tax liabilities with supporting calculations.
- c. Recommend appropriate tax-planning advice.
- d. Identify further information required to complete tax computations and finalise tax advice.
- e. Give advice which is appropriate, technically correct and within the law. Whilst ethics is not specifically examined in this paper, candidates are expected to produce solutions which meet the ethical guidance of the CIOT.
- f. Interpret and communicate UK tax legislation and apply it to a scenario.

2) Technical skills

The detailed requirements are set out in the grid referred to in the syllabus section above. In summary, the key technical skills to be assessed on this paper are to be able to:

- a. Understand, explain and calculate the tax charge for unincorporated businesses. This will include:
 - i. the charge to Income Tax charge and income that does not fall within the charge.
 - ii. the deductions and reliefs that are available against an Income Tax charge.
 - iii. the charge to Capital Gains Tax and disposals that do not fall within the charge.

- iv. the Capital Gains Tax reliefs relevant to businesses, including Entrepreneurs' Relief, Roll-over Relief and Gift Relief.
 - v. the implications of the disposal of assets within a partnership.
 - vi. the appropriate basis period for new, ceasing and continuing businesses.
 - vii. the profits available to each individual partner in a partnership including Limited Liability Partnerships and those with a corporate partner.
- a. Understand, explain and calculate the tax charge for incorporated businesses. This will include:
 - i. the charge to Corporation Tax and income that does not fall within the charge.
 - ii. the allowances available for Research & Development expenditure.
 - iii. the difference between trade and non-trade loan relationships and the subsequent impact on the Corporation Tax computation.
 - b. Understand, explain and demonstrate knowledge of the computations required for owner-managed businesses. This will include:
 - i. the taxable profits of a business showing an understanding of the tax adjustments that are required.
 - ii. when capital allowances can be claimed and the rates applicable.
 - iii. the capital allowances due giving consideration to any tax planning opportunities.
 - iv. the scope and assessment of employment income including benefits and expenses.
 - v. the taxation of termination payments.
 - vi. the different classes of National Insurance applicable to both an individual's and businesses' circumstances.
 - d. Understand, explain and apply knowledge of regulatory matters including:
 - i. the administration of personal taxes including filing deadlines.
 - ii. the Corporation Tax self-assessment system.
 - iii. the penalty regime for non-compliance.
 - iv. the DOTAS rules and/or anti-avoidance legislation may apply to a scenario.
 - e. Understand the different types of pension schemes and advise on the tax implications of such investments.
 - f. Understand the difference between employed and self-employed individuals and identify the taxation issues involved, including the implication for personal service companies.
 - g. Identify and understand the different share schemes available to reward employees including the tax treatment of the various alternatives.
 - h. Demonstrate an understanding of when Incorporation Relief applies and the tax planning surrounding the incorporation of a business.
 - i. Demonstrate an understanding of the application of Business Property Relief to owner-managed businesses
 - j. Identify and apply the 'badges of trade' to determine whether a trade exists.
 - k. Demonstrate an understanding of the regime for Intangible Fixed Assets and how it affects the Corporation Tax computation.
 - l. Demonstrate an understanding of the definition of a closely controlled company and identify the consequences of a company falling within the close company regime.
 - m. Identify where a company is an investment company and demonstrate an understanding of the resulting taxation implications.

- n. Identify and apply the loss reliefs available to both incorporated and unincorporated businesses.
- o. Explain and apply significant cases and developments as they affect UK Income tax, Capital Gains Tax, National Insurance and Corporation Tax.

3) Tax planning skills

Candidates will be able to advise on alternative tax treatments to defer or minimise tax liabilities. Candidates will also be able to understand the interaction of taxes in given scenarios and to identify and discriminate between tax evasion and tax avoidance.

In the assessment candidates may be required to:

- a. identify legitimate tax planning measures to minimise tax liabilities.
- b. evaluate and advise on tax strategies to meet personal objectives.
- c. evaluate and advise on alternative tax strategies relating to small businesses.
- d. recognise, explain and communicate opportunities to use alternative tax treatments.

Reference Materials

Candidates may bring into the examination any volumes from the following:

- Tolley's Yellow Tax Handbooks and Tolley's Orange Tax Handbook
- CCH Tax Statutes and Statutory Instruments Red book, including the index volume, and the CCH Green Book (VAT)
- HMSO copies of taxing statutes

Publications brought into the examination must be bound copies. They can be underlined and highlighted. Annotating, use of "post-its", tagging and folding pages is NOT allowed.