

Gail

Gail was born in 1969 and is resident and domiciled in the UK. She owns the whole of the ordinary share capital of Aero Ltd (A Ltd) and works full-time as a director of the company. A Ltd owns the whole of the ordinary share capital of Zephyr Ltd (Z Ltd). A Ltd and Z Ltd are both UK resident companies paying corporation tax at the main rate.

Historical transactions in respect of A Ltd and Z Ltd — all transactions took place at market value

1 January 2008	A Ltd acquired the whole of the ordinary share capital of Z Ltd for £180,000.
1 October 2012	A Ltd sold a building (the Simpson Building) to Z Ltd for £110,000. A Ltd had purchased this building for £75,000 on 1 December 2004.
1 March 2014	Z Ltd sold a building (the Torro Building) to A Ltd for £170,000. Z Ltd had purchased this building for £115,000 on 1 June 2010.

Proposed transactions — all transactions will take place at market value

Gail intends to raise a substantial sum of money by carrying out the following transactions:

- | | |
|------------------|--|
| (1) 24 June 2016 | Z Ltd will sell the Simpson Building to an unrelated purchaser for £140,000. Rollover relief will not be claimed in respect of this disposal.
Z Ltd will pay a dividend to A Ltd equal to the post-tax proceeds of this sale. |
| (2) 1 July 2016 | A Ltd will sell the whole of the ordinary share capital of Z Ltd for £250,000. |
| (3) 15 July 2016 | All of the cash realised by A Ltd as a result of transactions (1) and (2) will be paid to Gail in the form of either a dividend or a bonus. |

Please carry out the following work:

(a) Schedule prepared by Mill

I can confirm that there are no computational errors in the schedule but I suspect that Mill will have made a few technical errors.

Please identify and explain any errors in the schedule, explain whether or not the notes to the schedule are or are not correct, and calculate the correct amount of total cash available to pay to Gail.

(b) Payment to Gail

Calculate the additional tax and national insurance contributions due, as reduced by any corporation tax savings, if all of the cash realised by A Ltd as a result of the proposed transactions (1) and (2) is paid to Gail in the form of:

- (i) a bonus
- (ii) a dividend.

Gail's annual income tax liability in respect of her annual salary of £85,000 from A Ltd is £23,627. This will be her only source of income in the tax year 2016/17 other than any payments received from A Ltd as outlined above.

(c) Non-disclosure of income

Gail has realised that she has not declared some of her income in respect of the tax year 2011/12. As a result of this, her income tax liability for that tax year was understated. I have already explained the interest and penalties which may be charged in respect of this error.

State the other matters which need to be considered, by us and by Gail, in relation to the disclosure of this error to HM Revenue and Customs (HMRC).

Tax manager**Schedule prepared by Mill**

Cash which will be available to pay to Gail as a result of the proposed transactions (1) and (2)

	£
Sale of the Simpson Building by Zephyr Ltd	
Sale proceeds	140,000
Less: cost	(110,000)
indexation allowance (October 2012 to June 2016)	
£110,000 x 0.080	<u>(8,800)</u>
Chargeable gain	21,200
Less: corporation tax payable by Zephyr Ltd at 21%	<u>(4,452)</u>
Dividend of post-tax proceeds paid to Aero Ltd	16,748
Less: corporation tax payable by Aero Ltd at 21%	<u>(3,517)</u>
Cash available in respect of the sale of the Simpson Building	13,231
Sale proceeds in respect of Zephyr Ltd	<u>250,000</u>
Total cash available for Gail	<u>263,231</u>

Notes

1. I do not think there will be a chargeable gain on the sale of Zephyr Ltd due to the substantial shareholding exemption.

2. I think there will be a degrouping charge in respect of the Torro Building but I do not know how to compute it.

Mill**Required:**

Carry out the work requested in the email from your manager. The following marks are available:

(a) Schedule prepared by Mill. (11 marks)

Note: The following movements in the Retail Prices Index should be used, where necessary.

December 2004 to October 2012	0.293
December 2004 to June 2016 (est.)	0.400
January 2008 to July 2016 (est.)	0.250
June 2010 to March 2014	0.137
October 2012 to June 2016 (est.)	0.080