

The Chartered Institute of Taxation

AWARENESS

November 2020

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correction question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2019/20 rates and allowances continue to apply for 2020/21 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Abi has just started trading as a retailer of children's clothing and footwear. She anticipates that her turnover will be around £8,000 per month. She does not particularly want to register for VAT but she has heard that compulsory VAT registration applies once her turnover exceeds a certain limit. She is unsure of how the rules would apply to her.

Briefly explain when compulsory VAT registration will apply to Abi and any options that may be available to her.

2. Madeleine has been in business making taxable supplies to UK customers since 1 January 2020. She became VAT registered on 1 August 2020. She is completing her first VAT return, for the quarter ended 31 October 2020, and is unsure of the recoverability of the input VAT on the following items:

<u>Date of purchase</u>	<u>Item</u>	<u>Input VAT</u> £
27 December 2019	Advertising the business in the local newspaper	200
30 December 2019	Food and drink for prospective customers at the business's launch party	400
10 January 2020	A computer for use in the business	160
1 February 2020	A car for partial use in the business	2,000

The computer was damaged beyond repair on 27 July 2020 and was scrapped.

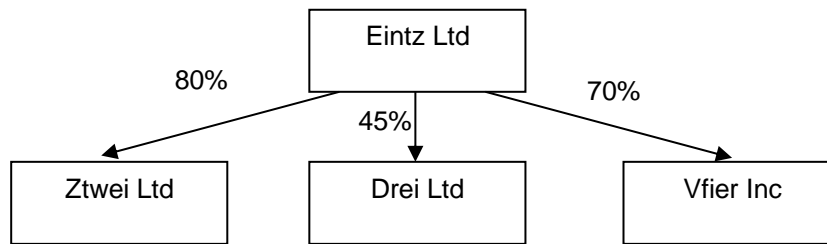
Briefly explain the input VAT, if any, that may be recovered for the quarter ended 31 October 2020 in respect of the above items.

3. Sarah is a VAT registered trader. Her sales for the quarter ended 30 June 2020 included standard-rated goods of £96,000. This included £3,500 in respect of a delivery made to a customer on 28 June 2020. The customer had paid a deposit of £1,200 on 12 June 2020 and on 8 July 2020 an invoice was raised for £3,500 plus VAT. The customer paid the outstanding balance on 3 August 2020.

You are required to:

- 1) **Briefly explain how the tax point rules apply to the delivery made on 28 June 2020.**
- 2) **Calculate the amount of output VAT to be reported on the VAT return for the quarter ended 30 June 2020.**

4. Eintz Ltd has the following interests in other companies:



Eintz Ltd, Ztwei Ltd and Drei Ltd are all established in the UK and make wholly standard-rated supplies.

Vfier Inc is established and resident in the country of Overlandia (outside the EU).

Eintz Ltd and Ztwei Ltd are in a group registration for VAT.

In the quarter ended 30 September 2020, the following transactions took place:

	<u>Eintz Ltd</u>	<u>Ztwei Ltd</u>
	£	£
Supplies to third parties	25,000	18,000
Supplies to Ztwei Ltd	8,000	
Supplies to Drei Ltd		<u>2,500</u>
	<u>£33,000</u>	<u>£20,500</u>
Standard rated purchases from third parties in UK	5,000	2,000
Purchases of goods from Vfier Inc	<u>9,500</u>	
	<u>£14,500</u>	<u>£2,000</u>

All amounts are exclusive of VAT.

Calculate the VAT payable by the Eintz Ltd group for the quarter ended 30 September 2020.

5. Bertie has been registered for VAT for some time but is finding the preparation of quarterly VAT returns to be burdensome. He has therefore asked for advice on the annual accounting scheme.

State the conditions which must be satisfied in order for Bertie to operate the annual accounting scheme and briefly explain the operation of the scheme.

6. On 20 January 2020, Flora sold standard-rated goods to the value of £5,000 (inclusive of VAT) to Sidney and issued an invoice on 31 January 2020. Flora's terms are that payment should be made within 30 days of the invoice date.

On 2 June 2020, the amount due from Sidney was still outstanding, and Flora received notice that Sidney had filed for bankruptcy.

Flora accounts for VAT on calendar quarters.

You are required to:

- 1) **State the conditions which must be satisfied in order for Flora to claim VAT bad debt relief.**
 - 2) **Calculate the amount of VAT bad debt relief that Flora can claim and state the VAT quarter in which the claim can be made.**
7. Alicia is a VAT registered trader making both taxable and exempt supplies.

For the quarter ended 30 September 2020, her VAT exclusive turnover was as follows:

	£
Standard-rated supplies	12,000
Zero-rated supplies	9,000
Exempt supplies	<u>7,000</u>
	<u>£28,000</u>

Her input VAT was as follows:

	£
Directly attributable to standard-rated supplies	3,400
Directly attributable to zero-rated supplies	1,700
Directly attributable to exempt supplies	600
Unattributable	<u>300</u>
	<u>£6,000</u>

Determine, with reference to the simplified partial exemption tests 1 and 2, Alicia's recoverable input VAT for the quarter ended 30 September 2020.

8. While completing the VAT return for the quarter ended 30 September 2020, the Finance Director of Florrich Ltd discovered the following errors in the company's VAT return for the quarter ended 30 June 2020:

	£
Understatement of output VAT	42,800
Overstatement of input VAT	16,700

Florrich Ltd's VAT exclusive turnover for the quarter ended 30 September 2020 was £6.5 million.

Briefly explain, with supporting calculations, the action to be taken in relation to these errors.

9. Glowbull Ltd is a UK VAT registered company. In its quarter ended 31 October 2020 it had the following international sales:
- 1) Silk ties to a customer in Spain who is not VAT registered.
 - 2) Silk scarves to a customer in France who is VAT registered.
 - 3) Silk stockings to a customer in Argentina.

Briefly explain the UK VAT treatment of the transactions, assuming the distance selling limits have not been breached.

10. Joy Love is a dealer in antiques and bric-a-brac and operates the second-hand goods scheme. In the quarter ended 31 August 2020 she sold the following items to members of the public:

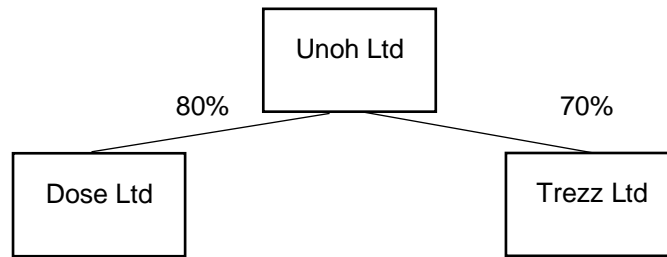
- 1) A clock for £15,000. The clock had been purchased in a poor state for £3,000 but Joy had spent £1,500 plus VAT having it professionally repaired and restored.
- 2) A painting for £200. Joy had purchased the painting for £8,000, believing that it was by a famous artist, but had subsequently discovered that it was a fake.
- 3) A ruby for £6,000 which she had purchased for £4,800.

Joy has heard about the global accounting scheme and would like to know how this differs from the second-hand goods scheme.

You are required to:

- 1) **Calculate the VAT due for the quarter ended 31 August 2020 on the three sales above under the second-hand goods scheme.**
- 2) **Briefly explain how the operation of the global accounting scheme differs from the normal second-hand goods scheme.**

11. Unoh Ltd has the following interests in other companies:



On 1 November 2019 Unoh Ltd transferred a warehouse to Dose Ltd for £650,000 when the market value of the warehouse was £800,000.

On 1 April 2020 Unoh Ltd transferred a workshop to Trezz Ltd for £225,000, its market value at that date.

On 1 September 2020, Unoh Ltd received an offer from Quwatro Ltd to buy its 80% holding in Dose Ltd for £2.2 million.

You are required to:

- 1) **Calculate the Stamp Duty Land Tax payable, if any, on the transfers of the buildings from Unoh Ltd to Dose Ltd and Trezz Ltd.**
- 2) **Briefly explain the Stamp Duty Land Tax implications of the warehouse transfer to Dose Ltd if Unoh Ltd accepts the offer to sell its shares in Dose Ltd to Quwatro Ltd.**

12. On 3 December 2019, David transferred shares with a value of £799,950 to Victoria as part of their divorce settlement.

Victoria transferred the shares to her daughter, Harper, in exchange for a diamond necklace valued at £526,375. At the time, the shares were worth £819,620.

Victoria and Harper prefer not to use electronic, paperless, share trading systems and therefore used a hard copy stock transfer form, which was signed and dated on 30 June 2020.

Harper did not submit the stock transfer form for stamping until 15 October 2020.

You are required to:

- 1) **Calculate the Stamp Duty payable on the transfers of the shares from David to Victoria and from Victoria to Harper.**
- 2) **State the date by which Harper should have submitted the stock transfer form and calculate the minimum penalty applying to the late submission.**

Module B: Inheritance Tax, Trusts and Estates

If you have entered for Module B you must answer Questions 13 – 24 and type your answers between the question dividers 13 – 24.

13. The Brypo Discretionary Trust, the only trust created by the settlor, had the following income and expenses during the year ended 5 April 2020:

<u>Income</u>	£
Property income	10,000
Dividends received	800
Building society interest received	4,100
 <u>Expenses</u>	
Agent's fees on property letting	960
Trustees' expenses met from income	518

Calculate the trustees' Income Tax liability for 2019/20.

14. Bob owns two farms; Bobbins Farm which he farms himself, and Firkins Farm which he rents to his son.

Bob is considering gifting both farms to a Discretionary Trust for the benefit of his children and grandchildren. The assets of each farm have been summarised as follows:

	<u>Bobbins Farm</u>	<u>Firkins Farm</u>
	£	£
Farmland – agricultural value	900,000	880,000
– market value	1,250,000	1,100,000
Farmhouse and barns	400,000	200,000
Farm equipment	300,000	380,000

Briefly explain any Inheritance Tax relief(s) that may be available on the potential gifts and any conditions which must be met at that time.

15. Pete made his first lifetime gifts during 2019/20 as follows:

May 2019	A holiday home worth £200,000 to his wife, Jenny.
July 2019	10,000 Ordinary shares in an investment company worth £40,000 to his son, Nate.
September 2019	Land worth £500,000 to a discretionary trust created for the benefit of his grandchildren.
October 2019	£10,000 cash to a UK charity.

Calculate the Inheritance Tax payable by Pete on these gifts, clearly showing your treatment of each item.

16. Before her death in September 2020, Joanne made three transfers to a trust (but no other lifetime gifts) as follows:

	<u>Gross Chargeable Transfer</u>	<u>Inheritance Tax paid</u>
	£	£
January 2011	200,000	Nil
March 2016	100,000	Nil
June 2019	318,750	18,750

Calculate the Inheritance Tax payable on the lifetime transfers as a result of Joanne's death.

17. Kenzi died in October 2020. Kenzi owned the following assets at the date of his death:

A 40% shareholding in Sympo Ltd, an unquoted investment company. Kenzi's civil partner Leo owns 20% of the company. The shares were valued at:

60% shareholding	£8.90 per share
40% shareholding	£5.50 per share
20% shareholding	£4.80 per share

A property in France valued at £120,000. The executors of Kenzi's estate paid £8,200 to obtain probate in France.

Briefly explain, with supporting calculations, how these assets should be valued for Inheritance Tax purposes.

18. Martin, who had never married, made transfers on 6 April each year to use his annual exemption but also made additional transfers during his lifetime as follows:

November 2010	A gift of cash to his nephew.
January 2015	A gift to a qualifying political party.
July 2016	A gift of cash to his friend, Sue.
May 2017	A transfer to a trust for the benefit of his surviving family on which Martin agreed to pay any tax due.

Martin died in August 2020.

Briefly explain how the available nil rate band for use against Martin's death estate would be calculated.

19. Alan, who had never married, died on 31 March 2020. His assets and liabilities at the date of his death were as follows:

	£
Main residence	530,000
Life assurance policy (own life) – proceeds received July 2020	95,000
Chattels	50,000
Cash (£10,000 held in an ISA)	80,000
Personal loans payable	(5,000)
Outstanding income tax payable	(1,800)

Alan had made no lifetime gifts. His estate was shared equally between his two daughters.

Calculate the Inheritance Tax payable on Alan's death.

20. Jamie entered into the following capital transactions during 2019/20:

May 2019	Gave a painting valued at £23,000 by a modern artist to a UK national heritage art museum.
August 2019	Sold an antique table to a friend, Keith, for £10,500. A local valuer had suggested Jamie might be able to sell the table at auction for between £10,000 and £12,000.
December 2019	Gave £200 to each of his six nieces and nephews.
February 2020	Sold a house to his brother, Simon, for £150,000. A local estate agent had valued the house at £185,000 but Simon could only afford to pay Jamie £150,000.

Briefly explain the immediate Inheritance Tax treatment of each transaction.

21. Nigel died in August 2006 leaving an estate valued at £400,000, which included his share of the family home. He left £199,500 to his daughter and the rest of his estate to his wife, Julia. Nigel had made no lifetime gifts.

Julia died in March 2020 leaving an estate valued at £900,000, which included the family home valued at £500,000, to her daughter. She had made no lifetime gifts.

Briefly explain, with supporting calculations, how much of Julia's estate was subject to Inheritance Tax at 40%.

22. The Jade Discretionary Trust was created by Martin in 2012 for the benefit of his grandchildren. Martin had created another discretionary trust in 1990 for the benefit of his children.

During 2019/20 the trustees of the Jade Discretionary Trust sold:

- 1) A racehorse for £28,000 which had been purchased in 2017 for £14,000.
- 2) A residential property, resulting in a capital gain of £65,000.
- 3) Quoted shares, resulting in a capital gain of £80,000.

The trust had a brought forward capital loss of £10,000 at 6 April 2019.

Calculate the Capital Gains Tax payable by the trustees as a result of these disposals.

23. Joanne owned a cottage by the sea for many years, which was used regularly by her and her family for holidays and short breaks.

She gave the cottage to her son in July 2019 when it was valued at £320,000, but it was agreed that Joanne could continue to use the property exclusively throughout the months of May and October each year.

Joanne died in October 2020, by which time the cottage had increased in value to £360,000.

Briefly explain how the gift of the cottage would be treated for Inheritance Tax purposes.

24. Mark died on 14 June 2020, leaving his estate to his grandchildren. The Inheritance Tax liability on his death estate has been calculated at £150,000.

In addition to this, further Inheritance Tax of £10,000 was payable on a lifetime transfer made in September 2015 to Mark's niece, Rosie.

State who is responsible for paying the Inheritance Tax as a result of Mark's death and the due date(s) for payment.

Module C: Corporation Tax

If you have entered for Module C you must answer Questions 25 – 36 and type your answers between the question dividers 25 – 36.

25. Trair Ltd's trade expenses for the year ended 30 September 2020 included the following costs:

	£
Pension contributions	36,000
Leasing costs relating to a car used by the sales director (CO ₂ 115g/km)	2,400
Premium paid on entering into a new 30-year lease on 1 April 2020	60,000

Of the pension contributions, £33,000 was paid during the year ended 30 September 2020. The balance of £3,000 was paid on 12 October 2020.

Calculate the total amount deductible in relation to these expenses in arriving at the company's taxable trading profits for the year ended 30 September 2020.

26. Froven Ltd made the following acquisitions in connection with its trade for the year ended 30 September 2020:

	£
Fleet of electric cars	145,000
Computer equipment	29,000
Air conditioning unit	63,000

The computer equipment has an expected useful life of four years at which point it will have no value and will be scrapped.

Froven Ltd is part of a group. The maximum amount of annual investment allowance that it may claim for the year ended 30 September 2020 is £56,000.

The tax written down value of its main pool at 1 October 2019 was £347,000.

Calculate the company's maximum capital allowances claim for the year ended 30 September 2020 assuming that all beneficial claims and elections are made.

27. Trush Ltd owns shares in a number of UK-resident listed companies. For its accounting period ended 31 July 2020, it received dividends of £3,000 and incurred management expenses of £2,000 in respect of those investments.

On 1 July 2020, Trush Ltd gifted shares with a market value of £15,000 to a charity. For chargeable gains purposes, the gift is deemed to take place on a no-gain-no-loss basis.

Trush Ltd had UK property business income of £10,000 for the year ended 31 July 2020.

Calculate the company's taxable total profits for the year ended 31 July 2020, clearly showing your treatment of all items. Show any unrelieved amounts to be carried forward at that date.

28. Norlo Ltd is a close company. It prepares its accounts to 30 June and does not pay Corporation Tax by instalments. The company has made the following loans to full-time members of staff:

<u>Date made</u>	<u>Recipient</u>	<u>£</u>
1 May 2018	Maria (director)	10,000
1 August 2019	Tom (employee)	6,000
1 November 2019	Alice (director)	20,000

Maria repaid £2,000 on 14 April 2019. Up to 31 August 2019, Maria held 4% of the company's issued share capital. This increased to 8% on 1 September 2019.

Tom does not own any shares in the company.

Alice made a repayment of £3,000 on 12 July 2020. She holds 15% of the company's shares.

There are no family or other connections between Maria, Tom and Alice.

Briefly explain, with supporting calculations, the company's liability to tax under s.455 CTA 2010 in respect of its accounting period ended 30 June 2020.

29. Riking Ltd's recent results were as follows:

	<u>Year ended 30</u> <u>September</u> <u>2018</u> <u>£</u>	<u>Year ended 30</u> <u>September</u> <u>2019</u> <u>£</u>	<u>Year ended 30</u> <u>September</u> <u>2020</u> <u>£</u>
Trading income	15,000	6,000	26,000
Overseas property business income	4,200	-	1,000
Overseas property business loss	-	(1,200)	-
Non-trade profits (loan relationships)	900	-	1,400
Non-trade deficit (loan relationships)	-	(8,200)	-
Chargeable gain	-	-	46,000
Capital loss	-	(25,000)	-

Calculate the taxable total profits for each period assuming the company claims relief for losses and deficits as early as possible. Your answer should clearly show your treatment of the losses and deficits.

30. Remint Ltd is a small company for the purposes of research and development (R&D) tax relief. During its year ended 31 July 2020, a full-time employee of the company was engaged 75% of the time on a new R&D project. The company's costs for the period in relation to the employee were as follows:

	<u>£</u>
Salary	50,000
Employer's National Insurance Contributions	5,709
Private medical insurance	500

A 100% deduction was made for the above costs in arriving at the company's trading loss for the period of £43,000. The company had non-trade loan relationship profits of £4,000 for the period.

Calculate the maximum trading loss the company may surrender for a R&D tax credit for the year ended 31 July 2020.

31. Puttle Ltd is 100% owned by a non-UK resident company, Lapse Inc. During the year ended 31 October 2020, Lapse Inc invoiced Puttle Ltd £4.2 million in respect of management services. Had the two companies not been connected, the value of the services would have been £3 million. Puttle Ltd's trading income for the year, after deducting the management charge, was £12.5 million.

The companies had the following figures for the year ended 31 October 2020:

	<u>Puttle Ltd</u>	<u>Lapse Inc</u>
Employees	42	315
Turnover	€21 million	€26 million
Balance sheet	€9 million	€30 million

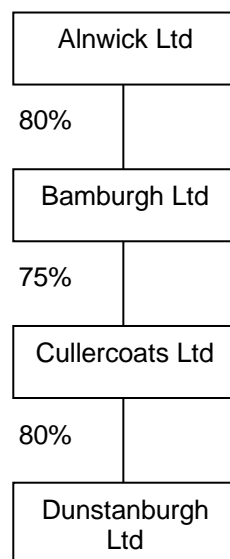
Briefly explain whether or not an adjustment under the transfer pricing rules is required in respect of the management charge.

32. Repiet Ltd carries on a manufacturing trade from a number of locations in the UK. On 1 December 2019, it bought a building for use as office space, paying £1.5 million.

On 31 July 2020, Repiet Ltd sold a warehouse that it had used in its trade for £1.8 million. The warehouse had been purchased for £700,000 in January 2006 and extended at a cost of £200,000 in March 2018.

Calculate the chargeable gain on the disposal of the warehouse, clearly showing your treatment of all items. You should assume that all beneficial claims and elections are made.

33. Alnwick Ltd is 100% owned by Mrs Northumberland and her children. It has the following interests in the share capital of other companies:



On 10 August 2020, Dunstanburgh Ltd sold a building to Cullercoats Ltd for £500,000. The building had a market value of £600,000 and an indexed cost of £280,000.

Briefly explain the amount that Dunstanburgh Ltd should use as proceeds in calculating its chargeable gain or allowable loss on the sale of the building.

34. Aclus Ltd acquired 60% of the issued share capital of Pator Ltd on 1 November 2017.

Pator Ltd manufactures children's toys. The company had always sold its toys to large retailers. However, the company's profit margin had reduced significantly in recent years and from 1 January 2018, the directors of Pator Ltd embarked on a strategy of selling the toys directly to the public through its website. By 31 December 2018, 90% of Pator Ltd's sales were made in this way.

Pator Ltd's results were as follows:

	<u>Year ended</u> <u>31 October</u> <u>2018</u> £	<u>Year ended</u> <u>31 October</u> <u>2019</u> £	<u>Year ended</u> <u>31 October</u> <u>2020</u> £
Trading income	8,000	45,000	280,000

Pator Ltd had trading losses brought forward at 1 November 2017 of £190,000.

Briefly explain why and how relief for Pator Ltd's brought forward trading losses is restricted.

35. On 1 August 2016, Frimon Ltd acquired 100% of the issued share capital of Tuesat Ltd. On 29 February 2020, Frimon Ltd accepted an offer from a third party for its shares in Tuesat Ltd. The disposal, which was completed on 31 March 2020, is covered by the substantial shareholding exemption.

The companies have the following results for the year ended 30 September 2020:

	<u>Frimon Ltd</u> £	<u>Tuesat Ltd</u> £
Trading income	65,000	-
UK property business losses	-	(52,000)
Non-trade profits: loan relationships	-	4,000
Non-trade losses: intangible fixed assets	-	(16,000)
Qualifying charitable donations	(5,000)	-

Calculate the maximum amount of group relief that Frimon Ltd may accept from Tuesat Ltd in respect of its year ended 30 September 2020.

36. Odyam Ltd had taxable total profits of £6 million and a Corporation Tax liability of £1.14 million for the year ended 31 October 2020. It paid its Corporation Tax liability for the previous year by instalments.

You are required to:

- 1) **Calculate the amount of each instalment payment for Odyam Ltd for the year ended 31 October 2020.**
- 2) **State the date by which each instalment is due for payment.**

Module D: Taxation of Individuals

If you have entered for Module D you must answer Questions 37 – 48 and type your answers between the question dividers 37 – 48.

37. For 2019/20, Sophie had employment income of £58,000 and the following savings income:

	£
Premium Bond prize	2,500
Bank interest (non-ISA)	600

Sophie received child benefit of £1,097 for 2019/20. She is a single parent.

You are required to:

- 1) Briefly explain the Income Tax payable by Sophie in respect of her savings income.**
 - 2) Calculate the amount of Sophie's High Income Child Benefit Charge, if any.**
38. Heidi lives in England. For 2019/20, she had employment income of £104,500 and she made a Gift Aid donation of £2,000.

Calculate Heidi's Income Tax liability for 2019/20.

39. Arnab is employed as a sales manager by Tath Ltd and receives a mileage allowance of 60p per mile when he uses his car for business journeys. He is paid monthly.

In March 2020, he received his usual pay of £6,000 plus £420 for 700 business miles.

Arnab's total business mileage for 2019/20 up to and including February 2020 was 16,250 miles.

Calculate the Class 1 National Insurance Contributions payable by Arnab and by Tath Ltd in respect of the amounts received by Arnab in March 2020.

40. Maria was provided with a company car by her employer from 6 October 2019. The car, which had a diesel engine, had a list price of £38,000 and CO₂ emissions of 129g/km.

Maria made a one-off contribution of £5,500 towards the purchase of the car.

On 6 February 2020, Maria was involved in a road accident. The car required repairs and Maria did not have use of the car until it was returned to her by the garage, two weeks later.

Calculate Maria's benefit in kind in respect of the car for 2019/20.

41. Anna and Elsie are sisters. They each own their own home in which they live.

Throughout 2019/20, Anna let a room in her home to a friend, Margaret who paid Anna rent of £700 per month. Anna's allowable expenses were £320 per month.

For six months during 2019/20, Elsie let a garage at her home to a neighbour. The neighbour paid Elsie rent of £150 per month. Elsie's allowable expenses were £35 per month.

Briefly explain how Anna and Elsie's property income will be treated for Income Tax purposes.

42. Remi is based at his employer's head office in Leeds. In 2019/20, Remi incurred rail and bus fares in respect of the following journeys:

- 1) Head office to clients' premises.
- 2) Home to head office.
- 3) Home to the company's office in York.

Remi was required to work in the York office full-time for five months due to staffing issues. On two occasions, Remi worked late at the York office and was required by his employer to stay overnight in a hotel.

Briefly explain what deduction, if any, Remi is allowed from his employment income for his travel and accommodation costs.

43. For 2019/20, Kevin had employment income of £160,000 and in addition, his employer made pension contributions of £35,000 on his behalf.

Kevin had unused annual allowance from earlier years as follows:

	£
2015/16	4,000
2016/17	2,000
2017/18	2,000
2018/19	1,000

Calculate Kevin's annual allowance charge or the amount of unused annual allowance carried forward, as appropriate, for 2019/20.

44. On 1 May 2010, Ali purchased the freehold of a commercial building, paying £200,000. On 1 May 2019, Ali granted a 45-year lease to a tenant, receiving a premium of £110,000. The freehold reversion was valued at £160,000.

Briefly explain, with calculations, how Ali will be charged to tax in respect of the premium received.

45. On 31 August 2019, Peter sold his entire holding of 1,000 ordinary shares in Grence Ltd, realising a capital gain of £25,000. Peter had not made any previous disposals of chargeable assets.

Briefly explain what additional information you would need to determine whether the conditions for investors' relief are satisfied.

46. Maurice made the following gains and losses for 2019/20:

	<u>Gain/(loss)</u>
	£
Residential property (never lived in by Maurice)	65,000
Shares in Spownie Ltd (qualified for entrepreneurs' relief)	35,000
Shares in Flizzle plc (sold to Maurice's daughter at market value)	(1,400)
Shares in Knoopy plc (held in an ISA)	2,000

He had employment income of £60,000 for 2019/20.

Calculate Maurice's Capital Gains Tax liability for 2019/20, clearly showing your treatment of each gain and loss, and state the due date for payment.

47. Boris made the following disposals in 2019/20:

	<u>Proceeds</u>	<u>Cost</u>
	£	£
Watch	12,000	2,000
Jewellery box	Nil	7,400
Painting	4,200	7,000
Necklace	7,500	3,000

Boris gave the jewellery box to a charity who immediately sold it at auction for £18,000.

None of the assets were used by Boris in a trade.

Calculate Boris' total chargeable gains for 2019/20 clearly showing your treatment of each disposal.

48. Marcus and Kezia are married. In May 2020, they submitted their 2019/20 tax returns online showing the following Income Tax liabilities:

	<u>Marcus</u>	<u>Kezia</u>
	£	£
Total Income Tax liability	10,700	1,400
Less Income Tax paid under PAYE	(7,500)	(1,100)
Income Tax payable	<u>£3,200</u>	<u>£300</u>

You are required to briefly explain whether:

- 1) **Marcus is required to make payments on account for 2020/21.**
- 2) **Kezia can have her tax liability for 2019/20 collected via PAYE.**

Module E: Taxation of Unincorporated Businesses

If you have entered for Module E you must answer Questions 49 – 60 and type your answers between the question dividers 49 – 60.

49. On 6 April 2019 Ted and Alice began trading in partnership, agreeing to share profits equally.

During April 2019 the partnership purchased a car for each partner. Ted's car cost £6,500 and has CO₂ emissions of 135g/km. Alice's car cost £8,000 and has CO₂ emissions of 99g/km. Both Ted and Alice used their car 70% for business purposes.

For the year ended 5 April 2020, the partnership made a taxable trading profit before capital allowances of £90,000.

Calculate Alice's assessable trading income for 2019/20.

50. Esther has been a sole trader for many years, preparing accounts on the cash basis and claiming flat rate expenses wherever possible. She has provided the following information for the year ended 30 September 2019:

	£
Cash receipts	70,000
Cash payments	96,000

The cash receipts include £4,450 proceeds from the sale of a van which was used 100% for business purposes.

The cash payments include £18,000 for the purchase of an estate car with CO₂ emissions of 119g/km. During the year ended 30 September 2019, Esther drove a total of 24,000 miles in the car, 60% of which were for private journeys.

Esther used a room in her home exclusively for business purposes for 35 hours each month.

You are required to:

- 1) Calculate Esther's trading loss for the year ended 30 September 2019.**
 - 2) Briefly explain how the trading loss can be relieved.**
51. Sidney, a sole trader, had a tax written down value on his general pool of £9,200 at 1 January 2019.

Sidney decided to change his accounting date and prepared accounts for the 16-month period to 30 April 2020. In March 2019 he purchased a car with CO₂ emissions of 125g/km costing £14,000 which was used solely for business purposes. In August 2019 he disposed of plant and machinery for £8,000 (original cost £12,000).

Calculate the maximum capital allowances available for the 16-month period ended 30 April 2020.

52. Poppy, a sole trader, began trading on 1 May 2017. Her taxable trading profits were as follows:

	£
Period ended 31 August 2018	24,000
Year ended 31 August 2019	14,000
Period ended 29 February 2020	4,000

Poppy ceased to trade on 29 February 2020.

Calculate Poppy's trading income assessments for all years from commencement to cessation of trade, clearly stating the basis periods.

53. Nuala, a sole trader, ceased trading on 31 January 2020. Her accounting profit for the final period of trade included deductions for the following items:

- 1) Termination payments made to the three members of staff of £28,000 each. The statutory amount is £5,000.
- 2) £4,400 paid out in bonuses of £1,100 each, to herself and each of the three members of staff.
- 3) A profit of £12,500 on the disposal of Nuala's business premises.

Briefly explain the treatment of each item in calculating Nuala's taxable trading profits for the final period ended 31 January 2020.

54. Aedan reached pensionable age on 6 December 2019 and had the following recent tax-adjusted trading profits and losses as follows:

	£
2018/19	(14,000)
2019/20	25,000

Aedan made a claim to relieve the 2018/19 trading loss against his total income of that year.

Briefly explain, with supporting calculations, the National Insurance Contributions payable by Aedan for 2019/20.

55. Freya was employed up to 31 August 2018. She had never had any other sources of income and had always paid any Income Tax due through the PAYE system.

She began trading on 1 September 2018. She notified HMRC of her start date on 18 July 2019 and was issued with a tax return on 25 August 2019. Freya completed and filed a paper return.

You are required to briefly explain:

- 1) **The due dates for the filing of the return and the first payment of Income Tax under self-assessment.**
- 2) **The potential penalties if Freya was six weeks late in filing her return and paying her first payment of Income Tax.**

56. Katie, Hannah and John had been in partnership for many years. The partnership profits and losses are shared as follows:

	<u>Katie</u>	<u>Hannah</u>	<u>John</u>
	£	£	£
Salary (per annum)	30,000	9,000	7,000
Balance shared	20%	30%	50%

The partnership's tax-adjusted trading loss for the year ended 31 December 2019 was £50,000.

Calculate each partner's share of the trading loss for the year ended 31 December 2019.

57. On 20 July 2005, Frank purchased four acres of land costing £12,750 for use in his business.

On 18 May 2019 he sold one of the four acres for £4,000 when the market value of the remaining three acres was £20,000. This was Frank's only disposal of land during 2019/20.

You are required to:

- 1) **Calculate Frank's chargeable gain on the disposal of the one acre of land.**
- 2) **Briefly explain why a small part disposal election is available to Frank and the effect of such an election.**

58. Olive has a trading loss for the year ended 30 September 2019 of £45,000. Her only other income for 2019/20 was property income totalling £19,500. She had no income for 2018/19.

Olive had net chargeable gains of £41,000 in 2019/20. She had a capital loss brought forward from 2018/19 of £22,500.

Calculate the maximum amount of trading loss that can be relieved against Olive's capital gains for 2019/20 and her taxable gains if a claim for this relief is made.

59. On 15 July 2019, George realised a capital gain of £90,000 when he sold a warehouse for £330,000, which had been partly used in his trade. The warehouse had always been too large for George's requirements so he had let out one third of it to an unconnected business.

On 20 June 2019, George purchased a smaller, replacement warehouse for £200,000 for use in his trade. A claim is to be made for the maximum possible rollover relief.

Calculate George's chargeable gain for 2019/20 and the base cost of the replacement warehouse.

60. On 25 March 2020, Jennifer sold a building to Emily for £900,000, which she had used in her sole trader business. Under the sale contract, the total proceeds of £900,000 are payable in 15 equal annual instalments of £60,000 starting on 25 March 2020. Jennifer's Capital Gains Tax liability on the sale of the building is £65,000.

Assuming that Jennifer elects to pay her Capital Gains Tax liability in instalments, state the due dates and amounts of each instalment.