



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module A – VAT including Stamp Taxes

1. In June 2016 Cameron, a VAT registered landscape gardener, remodelled the garden of Adam, a plumber. At that time, Adam agreed to pay Cameron £6,000 for the gardening work and to do some plumbing work for Cameron for free. Cameron would usually charge £7,000 for the gardening work.

On completion of the work Adam paid £5,500. He has not yet paid the remaining cash or undertaken the plumbing work. Payment was due in full by 31 August 2016.

You are required to briefly explain:

- 1) The amount of VAT due on the original supply of gardening work by Cameron in June 2016; and
- 2) Cameron's position in relation to bad debt relief.

	<p>1/ VAT is due on the consideration. Consideration can be in cash or other form. Here it is the offer of plumbing services. The consideration for the job is actually £7000. Therefore the VAT due is $£7000 \times 20\% = £1400$</p>	
	<p>2/ Bad debt relief can be claimed only when the debt is more than 6 months overdue and when the amount is unpaid has been written off in the account. The payment is due on 31 August so Cameron will need to wait until the end of February and if</p>	

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the bill remains unpaid he can then claim back the VAT he has paid in respect of the invoice.

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2. For many years Hamer Ltd, which makes standard rated supplies, has had three wholly owned subsidiaries:

- 1) Stephens Ltd
- 2) Mahon Ltd – making zero rated supplies
- 3) Nawaz Ltd – making wholly exempt supplies

All companies are incorporated in the UK with the exception of Stephens Ltd which is incorporated and operates in India. Hamer Ltd intends to form a VAT group.

You are required to briefly explain:

- 1) Which companies are eligible to form a VAT group; and
- 2) The potential advantages of VAT group registration.

You are NOT required to consider the disadvantages of VAT group registration.

	<p>1/ In order to form a VAT group a company must hold 75% of the other company. In addition the company must be resident in the UK.</p>	
	<p>Here</p>	
	<p>Hamer Ltd</p>	
	<p> / </p> <p> Mahon Nawaz</p>	
	<p>Can form a VAT group but this may mean that Hamer's rate of recovery is reduced as the groups will have partial exemption.</p>	

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2/ Advantages

1/ Less administration as one

VAT return for the group

2/ One company is the representative for the group

3/ All companies are joint and severally liable for the VAT due

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3. Marshy Ltd incurred the following entertaining costs in the quarter to 31 March 2017:

	<u>VAT inclusive amount</u> £
Meal with a potential UK client when trying to win a new contract. The meal was for six client staff and three employees of Marshy Ltd, who were involved in the negotiations	750
Team building activity event for the five directors of Marshy Ltd	900
Annual dinner for staff. The dinner was attended by 100 members of staff (including the five directors) and 80 of their guests. No charge was made to attendees	7,200

The company has kept all relevant invoices.

Calculate, with brief explanations, the total input tax recoverable by Marshy Ltd on its entertaining costs in the VAT return for the quarter to 31 March 2017.

<p>Meal with potential UK client. This is client entertaining and the attendance of the staff is incidental. The cost is not permitted to have VAT recovery.</p> <p>VAT not able to be recovered £125 ($\frac{1}{6} \times 750$)</p>	
<p>Team building activity event for directors. This is a staff activity so is a permitted recovery.</p> <p>$\frac{1}{6} \times 900 = \text{£}150$ VAT to recover</p>	
<p>Annual dinner for staff this is staff entertaining so VAT can be recovered in respect of the staff attending but</p>	

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not in respect of the guests

$$\frac{100}{180} \times \frac{1}{6} \times 7200 = \text{£ } 660 \text{ (rounded)}$$

W

$$0.55 = \frac{100}{180}$$

$$\frac{1}{6} \times 7200 = 1200 \text{ Rounded}$$

$$1200 \times .55$$

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4. Mariella has purchased the freehold of a 20-year old commercial property. Before it is let to tenants, the property will be renovated at a cost of £200,000 plus VAT at the standard rate. Following renovation, Mariella expects to let the property for an annual rent of £35,000. She expects to let to either a firm of solicitors or a bank.

The previous owners did not opt to tax the property.

Briefly explain how the position differs for Mariella and her tenants if she:

- 1) does; or
- 2) does not

opt to tax the property.

	<p>1/ If Mariella opts to tax then she would be able to recover the VAT on the building works. In addition she would charge VAT on the rentals to her tenants of £7000 per year which they could recover against their own VAT.</p>	
	<p>2/ If Mariella does not opt to tax then she will not be able to recover the £40,000 of VAT that she pays on the renovations. She would not charge her tenants VAT on the rental so they could not make any recovery on this.</p>	

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5. For the quarter to 31 August 2016, Braithwaite Ltd submitted its VAT return late and paid its VAT late. All previous VAT returns had been submitted on time and the VAT paid on time. Recent returns have been dealt with as follows:

<u>Quarter to</u>	<u>VAT due/(repayable)</u> £	<u>Date return submitted/VAT paid</u>
30 November 2016	7,000	12 January 2017
28 February 2017	(1,000)	15 April 2017

Braithwaite Ltd has annual turnover of approximately £500,000.

You are required to:

- 1) Calculate, with brief explanations, the default surcharges arising on the two VAT returns to 28 February 2017.
- 2) State the date when the surcharge period ends, and the rate applying to the next default in the surcharge period.

	<p>Default surcharges.</p> <p>A default notice would have been issued when the August 2016 VAT return was sent ^{submitted} late. This lasts for 12 months and includes a calculation of the potential lost revenue of at 2%. The charge is not charged unless it exceeds £400.</p>	
	<p>Return 1 30th November 16 due on 7 January 2017 so this is late as not sent in until 12 January. This is a second default so a charge of £7000 x 5% = 350</p>	

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This change is below £ 400 so though assessed would not be charged. The default period would be extended again to 12 months from 30th November 16.

Return 2

28 Feb 17. This should have been submitted on 7th April 2017 but is not submitted until 12th April.

There is no tax due so no penalty is charged except a minimum of £ 30 as this is now 10% default rate. Period is extended again for default to 28 Feb 18.

A further default would have a charge rate of 15% of the potential lost revenue

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6. On 15 March 2017, Raza Ltd sold a freehold office building, which it has always used for its own trade, for £600,000.

The company had purchased the freehold of the building when new in August 2011 for £400,000 plus VAT. The company, which only makes taxable supplies, has a VAT year to 31 March each year. No option to tax has been made in respect of the building.

You are required to:

- 1) Calculate the adjustment(s) required to Raza Ltd's VAT return as a result of the sale of the office building.
- 2) Briefly explain, with supporting calculations, whether this would differ if the taxable use of the building had been only 95% since 1 April 2016.

	<p>Sale £800000</p> <p>Purchased £400000 + VAT £80000</p>	
	<p>The building cost more than £250000 so falls into the capital goods scheme where VAT is assessed over 10 years.</p> <p>The company recovers the VAT of £80000 in full initially but then each year must assess if any VAT has to be repaid. If the business changes the use of the asset recovery rate changes then VAT may be due to or from HMRC.</p> <p>In this case 100% recovery was made initially.</p>	
	<p>March 17 Sold</p> <p>Aug 11 Bought.</p>	

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The normal rule in a disposal is to treat building as used 100% for any remaining years. However in this case the 100% rate has been recovered so no adjustment would be needed.

2/ If however the ~~rate~~ of the recovery rate had dropped to 95% then the recovery would drop and tax would be due to HMRC.

$$80000 \times (100\% - 95\%) \div 10 = \text{£}400$$

due to
HMRC

if the ~~rate~~ ^{recovery} rate dropped.

Building sold assume 100% recovery rate for remaining years 2017/18/19/20 so no further VAT recovery by HMRC

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7. Matthew, a VAT registered clothing retailer, issues retailer invoices wherever possible. He recently issued an invoice to a customer which he believed to be a valid retailer invoice, including only the following information:

- 1) An invoice number
- 2) Invoice date/date of supply
- 3) Matthew's name, address and VAT registration number
- 4) A description identifying each of the 10 items of adult clothing supplied (including unit price)
- 5) The total amount payable by the customer

The clothing supplied by Matthew was sold for a total of £220 plus VAT of £44 at the standard rate.

You are required to state:

- 1) The two reasons that prevent this from being a valid retailer invoice.
- 2) The additional information required to make it a valid standard invoice (i.e. rather than a retailer invoice).

	<p>1/ a) Retailer invoices can only be supplied for goods worth £250 VAT inclusive or less.</p> <p>b) Matthew does not state the VAT rate and total charged in each category.</p>	
	<p>2/ Matthew needs to state the net price, the amount of VAT, the VAT rate and the persons name and address the goods are supplied to.</p>	

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New York company then it could have regarded this as an exempt and zero rated.

~~However if this material~~

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9. Phoebe, a client of your firm, operates a launderette in a village close to her home. She has sent you her records in order to prepare her VAT return for the quarter to 31 March 2017. She assures you that she has kept all invoices, but you have not yet been able to find the invoices for the following purchases.

<u>Detail</u>	<u>VAT inclusive amount payable</u> £
Supply of electricity	
– to her home	210
– to the shop	450
Uniform provided for the three members of staff	240

In addition, Phoebe has a collection box in the shop for customers to leave tips and gratuities. These are shared between the members of staff.

You are required to briefly explain:

- 1) The rate of VAT on these supplies that have been made to Phoebe, and where possible how much input tax is recoverable, or any further information that is required.
- 2) The VAT treatment of the tips and gratuities given to the staff from the collection box.

1/	<p>Supply of electricity to her home. This would be supplied at the reduced rate of 5%.</p> <p>Therefore $\frac{210}{105} = 2$ = £2 ∴ 5% = £10.50.</p> <p>VAT should not be claimed if invoice cannot be produced. Client should ask for duplicate invoice. There is also an argument that this was dual purpose as the home needed electricity for reasons other than work basis of split should be shown between private and home or flat rate expense claimed</p>
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Electing to sleep. This is not a domestic supply so standard rate VAT applies.

$$\text{so } \frac{1}{6} \times \text{£}450 = \text{£}75-00$$

should be recovered but client must have invoice. Suggest obvious duplicate

Uniforms for staff.

These are not subject to VAT so no VAT can be recovered.

Tips and Gratuities

These are outside the scope of VAT as they are not in the form of an increased service charge.

Therefore no VAT is due though staff should declare for income tax purposes.

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2/ ✓ He would not need to detail all items individually

2/ He would simply be able to split into different VAT rate totals

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11. On 20 June 2016 Rooble Ltd sold a 10% shareholding in Poogle Ltd to Robindo Ltd for £250,000. Rooble Ltd has had a 45% holding in Robindo Ltd for many years.

The directors of Rooble Ltd believed that there was no Stamp Duty to pay on the transfer on the basis that the companies are part of the same group. The instrument of transfer has not yet been stamped. The issue will be resolved and any relevant Stamp Duty paid within the next month.

You are required to briefly explain:

- 1) Why the transfer of the shares is not exempt from Stamp Duty.
- 2) The maximum penalty that may be payable for having the instrument stamped late, assuming payment is made in May 2017. Use calculations to support your answer.

	<p>1/ This is insufficient of a holding for a stamp duty group as this needs to be a 75% interest. This is only 45% here.</p>	
	<p>2/ Stamp duty is due within 30 days. Transaction 20 June 16 so tax due 19 July 16.</p>	
	<p>Tax due is $£250,000 \times 0.5\% = £12500$</p>	
	<p>If paid late interest must be paid at 3% Assuming this is 10 months late as payment day $\frac{10}{12} \times 12500 \times 3\% = £313$</p>	

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Penalty of £100 for late submission
and 5% of tax due if over 12 months
late. None less than 12 month overdue

~~A/S/O/N/D/J/F/M/A/M~~

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12. On 1 September 2016 Jamarcus Ltd entered into leases over two properties:

- 1) An office building in London. Jamarcus Ltd originally purchased the property in 1990 and sold the freehold of the property to Harrald Ltd, an unconnected company on 1 September 2016. Harrald Ltd immediately leased the property to Jamarcus Ltd for 10 years at a premium of £170,000.
- 2) A factory on which Jamarcus Ltd paid a lease premium of £300,000 for a 40-year lease. In addition, it pays an annual rent of £10,000. The rent will be reviewed in 2024. The cumulative factor for a 40-year lease is 21.35507234.

Briefly explain with the aid of calculations, the Stamp Duty Land Tax payable by Jamarcus Ltd on these transactions.

1/ Sale to Harald - no SDLT implications	
2/ Lease both would generate stamp duty.	
Excess over £150,000 at	
2%	
So $20,000 \times 2\% = £400$	
2/ Lease premium 300,000	
$0 - 150,000 = 0 = 0$	
$150,001 - 250,000 = 2\% = 100,000 = 2,000$	
$250,001 + = 5\% = 50,000 = 2,500$	
Rental - Below £150,000 so no charge.	

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AWARENESS

Module C – Corporation Tax

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1. During the year ended 31 March 2017, Hebburn Ltd entered into a contract to buy a new machine for £380,000. The machine was delivered on 1 February 2017 at which point Hebburn Ltd had an unconditional obligation to pay for it. Payment was made as follows:

Payment type	Payment date	Amount £
Trade-in of old machine	1 February 2017	50,000
Cash	1 February 2017	110,000
Cash	30 April 2017	110,000
Cash	31 July 2017	110,000
		<u>£380,000</u>

The old machine was bought in 2007 for £280,000.

Hebburn Ltd made no other additions or disposals during the year.

The tax written down value of Hebburn Ltd's main pool at 1 April 2016 was £76,000.

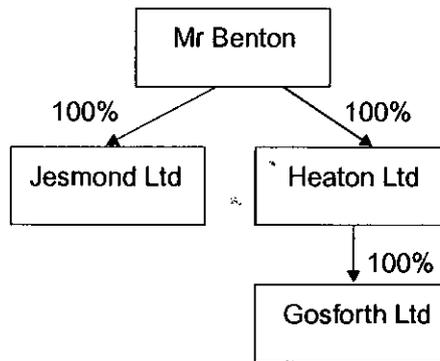
Calculate the maximum capital allowances that Hebburn Ltd may claim for the year ended 31 March 2017.

Capital allowances Y/E 31/3/17			
	Unconditional	1/2/17	
	More More than 4 months after obligation to pay July payment so only include payment 1 Feb + 30 April this year.		
	AIA	Gen Pool	Allowance
Bal b/fwd		76000	
Disposal		(50000)	
Add			
Machine Payment 4	110000		
Payment 2	90000	10000	
	<u>200000</u>	<u>36000</u>	
AIA	(200000)		200000

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2. Mr Benton has the following shareholdings:



The companies' results are as follows:

	<u>Jesmond Ltd</u> £	<u>Heaton Ltd</u> £	<u>Gosforth Ltd</u> £
Year ended	31 Mar 2017	31 Mar 2017	31 Dec 2016
Trade profit/(loss)	(100,000)	64,000	(36,000)
Loan relationship credit	5,000	-	-
UK property business loss	-	(4,000)	-

Calculate the taxable total profits for each company, assuming all beneficial claims and elections are made. State the amount(s) of any unrelieved trading losses.

	Jesmond	Heaton	Gosforth
Trade profit	-	64000	-
Loan rel credit	5000	-	-
UKPTA			-
	<u>5000</u>	<u>64000</u>	<u>0</u>
Gosforth loss		(36000)	
Transferred to Heaton		(36000)	
Own loss	(5000)	(4000)	
	<u>0</u>	<u>24000</u>	<u>0</u>

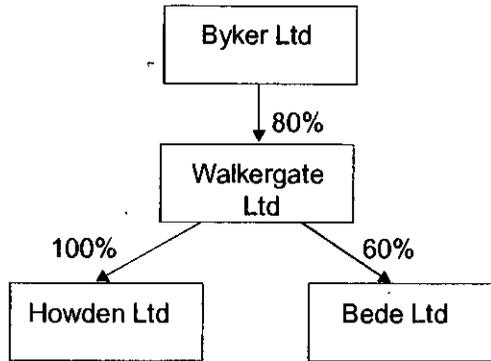
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Heaton & Cosgrove can form a group but Desmond cannot as this is owned by an individual. Losses therefore can only be shared between Heaton & Cosgrove as over 75% interest in distributable profits, voting right & assets on dissolution

Desmond. - Trade loss of £95000 can be set against trade profit only.

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3. Byker Ltd has the following shareholdings:



During the year ended 31 March 2017:

- 1) Byker Ltd sold land and buildings previously used for the purposes of its trade for £400,000, realising a gain of £320,000.
- 2) Byker Ltd also sold investments in the share capital of listed companies for £800,000, realising a gain of £330,000.
- 3) Walkergate Ltd realised a capital loss of £18,000.
- 4) Howden Ltd acquired land and buildings for use in its trade, paying £300,000.

All transactions were with unconnected companies.

You are required to:

- 1) Briefly explain which companies form part of Byker Ltd's group for capital gains purposes.
- 2) Calculate Byker Ltd's chargeable gains, assuming all beneficial claims and elections are made.

<i>Craps for CGT</i>	
<i>Needs to be over 75% direct</i>	
<i>and over 50% indirect</i>	
<i>Companies in group are</i>	
<i>Byker Ltd</i>	
<i>Walkergate</i>	<i>80%</i>
<i>Howden</i>	<i>80 x 100 = 80</i>
<i>NOT Bede</i>	<i>as 80 x 60 = 48%</i>

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Byher gains

Land + Build gain 320000

Shares 330000

Less loss surrendered (18000)

by W allocate

Net gains 632000

Sale proceeds 400000

800000

1200000

Reinvested £300000

So limited roll over relief as

net all proceeds reinvested 1200000

less £300000 = £900000

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4. Cullercoats Ltd is a small company for the purposes of research & development tax relief. It commenced trading on 1 April 2016. For the year ended 31 March 2017, it has a trading loss of £35,000 before deducting qualifying revenue expenditure on a research and development project of £50,000.

Briefly explain, with the aid of calculations, the ways in which Cullercoats Ltd could claim tax relief for the research and development expenditure.

Cullercoats	
Trading loss	(35000)
Less R+ Development	(50000)
	(85000)
Take Lower of	
Trading loss	(35000)
Less Research & Dev	
$50000 \times 230\% =$	(130000)
	(165000)
or	
$50000 \times 230\% =$	130000
Therefore	$130000 \times 14.5\% = 18850$
The company can surrender the loss in return for a tax credit of £18850 either as a cheque or a credit against corporation tax	

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5. Jarrow Ltd is a trading company. For the year ended 31 March 2017, it has a profit of £680,000. The company's accounting information shows that:
- 1) Turnover includes overseas sales income of £54,500 (£45,000 received; withholding tax of £9,500 suffered).
 - 2) Expenditure includes pension contributions of £50,000, including £12,500 that was accrued at 31 March 2017 and was paid in April 2017.
 - 3) Jarrow Ltd owns 90% of the issued share capital of Meadow Well Inc, a non-UK resident company. For the year ended 31 March 2017, Meadow Well Inc has chargeable profits of £130,000 which pass through one of the Controlled Foreign Company (CFC) gateways. It paid tax of £nil in its country of residence in respect of those profits.

Calculate Jarrow Ltd's UK Corporation Tax payable for the year ended 31 March 2017.

Trading profits	£ 680 000	
Add back pension contributions not paid within 9 months of year end	£ 50000 12 500	
Overseas income	£ 54 500	W1
CFC Income	£ 130 000	W2
	<u>877 000</u>	
Corp Tax		
£680 000 + £12 500 + £130 000 = £822 500 × 20% =		
	$877000 \times 20\% = 175400 - \frac{9500}{W1}$	<u><u>£165900</u></u>

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Working

WI Overseas income	G	N	T
	54500	45000	9500

UK tax $54500 \times 20\% = 10900$

Take lower of UK tax and overseas tax as credit against UK tax.

W2 CFC

~~$130000 \times 11\% = 14300$~~
 ~~$130000 \times 20\% = 26000$~~

CFC Tax $130000 \times 11\% = 14300$

UK Tax

$130000 \times 20\% = 26000$

Less Tax credit 40300

$130000 \times 11\%$ 14300

26000

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<u>Workings</u> w1	FYA	Main	Allow
Bal b/fwd.		78000	
FYA			
Zero emission car	<u>27000</u>		
	27000	<u>78000</u>	
FYA	(27000)		27000
Main @ 18% =		14040	<u>14040</u>
Allowances			<u>41040</u>
Bal c/fwd	0	<u>63960</u>	

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7. Chillingham SA was incorporated on 1 March 2017 in Ruritania. It is a manufacturing company and its main asset is a factory in Ruritania. The company's Board of Directors meet quarterly in Ruritania to make operational decisions. The company is 100% owned by a UK resident individual who directs the company's activities from his home in the UK.

There is no double tax agreement between the UK and Ruritania.

You are required to:

- 1) State how the charge to UK Corporation Tax applies to a non-UK resident company compared to a UK resident company.
- 2) Briefly explain whether or not Chillingham SA is UK resident for Corporation Tax purposes.

	<p>UK corporation tax can apply to non Non UK companies in two circumstances</p> <p>1/ Where they have a permanent establishment in the UK such as say a factory. Then corporation tax would be charged on income and gains generated by the UK based permanent establishment</p> <p>2/ If a company though stated to be overseas as in here it is formed in Ruritania however we are told despite decision being taken by the board in Ruritania that a UK individual who owns 100% of the company</p>	
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is telling the ~~entire~~ board members what to decide. This could change the residence of the company to the UK making it liable to worldwide income and gains in the UK.

[2] Here we are told that a UK based individual "directs the companies activities". If this individual is telling the directors what to decide albeit they held the meetings in Ruritania it seems likely the company has become resident in the UK and liable to corporation tax on worldwide income & gains.

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8. Percy Main Ltd ceased to trade on 31 March 2017, making a trading loss of £200,000 for the three-month period to 31 March 2017. It also made a trading loss of £12,000 for the year ended 31 December 2016. It had trading profits but no other income or gains, for all earlier accounting periods.

You are required to:

- 1) Calculate the company's terminal loss.
- 2) Briefly explain how the terminal loss will be utilised.

	31/12/16	31/3/17	
	(12 000)	(200 000)	
<p>Where there is no profit in the previous accounting period the terminal loss is not adjusted. Therefore the terminal loss is fixed at £200 000.</p>			
<p>On ceasing or trade a company can use the loss against the following</p> <ol style="list-style-type: none"> 1/ Any current year income & gains 2/ It can carry the loss back for 36 months. As it only traded for 3 months in 2017 This means the loss can go back 			

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to 31/3/16, 31/3/15, and 31/3/14
by taking the full years and adjusting
for 2014 year to claim full 36 months
relief. This can be set against any
income and gains of these years.

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9. Hadrian Ltd's tax-adjusted trading profits for the year ended 31 March 2017 are £110,000. The following receipts have not been included in this figure:

Date	Description	£
April 2016	Proceeds from sale of factory used in trade	330,000
April 2016	Proceeds from sale of intellectual property used in trade	120,000
May 2016	Dividend received from 100% UK-resident subsidiary company	60,000

The company bought the factory and the intellectual property in September 2007 from an unconnected party, paying £145,000 for the factory and £35,000 for the intellectual property. It incurred legal expenses of £2,500 in respect of the purchase of the factory.

The tax written down value of the goodwill at 31 March 2016 was £3,500.

Calculate the company's taxable total profits for the year ended 31 March 2017.

	Profits	£ 110 000
	Capital allowances (W2)	(630)
		<u>109 370</u>
	IP unchanged but	£ 85 000
	Non trading receipt	
	120 000 - 35 000 =	
	Capital gain (W1)	147 300
	TTP	<u>341 670</u>
	Legal expenses relate to capital items so disallowed	

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W1

Disposals

Factory - Sale proceeds	330000
Less cost	(145000)
Unindexed gain	<u>185000</u>

Indexation

April 16 - Sept 07

Sept 07

$$\frac{262.0 - 208.0}{208.0} \times 145000 =$$

208.0

$$\text{Round to } 26\% \times 145000 = \underline{(37700)}$$

Indexed Gain 147300

W2

Creditor	£3500
CA @ 18% =	<u>(630)</u>
C/fund T	<u>2870</u>

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10. Mr Whitley provides IT services through Bay Ltd. Bay Ltd's results for the year ended 5 April 2017 are summarised below:

	£	£
Sales to Gateshead Ltd	87,000	
Sales to other customers	7,400	
Total sales	<u>94,400</u>	94,400
Salary paid to Mr Whitley plus employer's NICs	15,951	
Pension contributions made in respect of Mr Whitley	3,000	
Other allowable expenses	<u>6,384</u>	
		(25,335)
Profit per accounts		<u><u>£69,065</u></u>

The contract between Bay Ltd and Gateshead Ltd is a relevant engagement for the purposes of the IR35 rules. The other allowable expenses above do not relate to this engagement.

Calculate Bay Ltd's trading profit for the year ended 5 April 2017.

	<i>Gateshead</i>			
	Relevant income	87000		
	Less 5%	(4350)		
		<u>82650</u>		
	Less			
	Salary	(15951)		
	Pension	(3000)		
	Expenses	(6384)	(25335)	
			<u>57315</u>	
	$\frac{13.8}{113.8} \times 57315 =$		(6950) (Rounded)	
	Deemed income		<u><u>50365</u></u>	

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12. Heworth Ltd pays its Corporation Tax in instalments. It expects to have a Corporation Tax liability of £400,000 for the 10-month accounting period ended on 31 March 2017.

You are required to:

- 1) Calculate the amount of each instalment payment for Heworth Ltd for the period ended 31 March 2017.
- 2) State the date by which each instalment is due for payment.

Instalments	
Year ended 31 March 17	
Instalment 1	$\frac{3}{10} \times 400000 = 120000$
3 months + 13 days	
14/7/17	
Instalment 2	$\frac{3}{10} \times 400000 = 120000$
14/10/17	
Instalment 3	$\frac{3}{10} \times 400000 = 120000$
14/1/18	
Instalment 4	$\frac{1}{10} \times 400000 = 40000$
due 2 months + 14 days	
after end of a/c period	
14 June 2018.	
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Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module E – Taxation of Unincorporated Businesses

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1. Freda began trading on 6 April 2016 as a sales agent. Freda has decided to use the cash basis of accounting to calculate her trading income.

During the year ended 5 April 2017, she had the following income and expenses:

<u>Income</u>	£
Sales commissions received during the year	28,500
 <u>Expenses</u>	
Total cost of goods purchased during the year	23,300
Loan interest paid during the year	850
Staff wages	7,400

At 5 April 2017 goods remaining in stock were valued at £900 and there were unpaid sales commissions owed to Freda of £1,200.

You are required to:

- 1) Calculate the loss for the year ended 5 April 2017 using the cash basis of accounting.
- 2) Briefly explain how the loss for the year ended 5 April 2017 could be relieved.

	Income	28500
	Less	
	Goods purchased	(23300)
	Staff wages	(7400)
	Loan interest £500	(500)
		(2700)
<p>1/ Freda can carry the loss back up to three years as she has just commenced trading on first in first out basis</p> <p>2/ She could use the loss against other</p>		
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income in the current year

3/ She could carry the loss forward
but only use against trade profits
of the same trade.

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2. Bob had operated as a sole trader for many years. On 5 October 2016 Bob asked Jack to join the business as a partner, sharing profits on a 60:40 basis in favour of Bob from that date.

The trading profits of the business for the year ended 5 April 2017 were £88,000.

Calculate the total National Insurance Contributions payable by each of Bob and Jack for 2016/17.

	Total	Bob	Jack
6/4/16 - 5/10/16			
6 months			
$88000 \times \frac{6}{12}$	44000	44000	
	<u>0</u>		
5/10/16 - 5/4/17			
$88000 \times \frac{6}{12} = 44000$			
PSR - 60:40		26400	17600
		<u>70400</u>	<u>17600</u>
Bob			
Class 2		$2.80 \times 52 = \underline{\underline{146}}$	
Class 4		$0 - 8060 = 0$	
		$43000 - 8060 \times 9\% = 3145$	
		$27400 \times 2\% = \underline{548}$	
		<u><u>3693</u></u>	

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Jack

Class 2 $2-80 \times 26 = \underline{\underline{73}}$

Class 4

$0 - 8060 @ 0\% = 0$

$\$17600 - 8060 @ 9\% = \underline{\underline{859}}$

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3. Claire began trading on 6 April 2015. Tax adjusted trading profits/(losses) are as follows:

	Profit/(loss) £
Year ended 5 April 2016	7,000
Year ended 5 April 2017	(91,000)
Year ended 5 April 2018 (forecast)	10,000

Until 5 April 2015, Claire received employment income of £60,000 each year.

Prepare a loss memo to show how the £91,000 loss will be relieved assuming Claire claims to use the loss in the most beneficial manner.

2012	2013	2014	2015	2016	2017	2018
60000	60000	60000	60000	7000	(91000)	10000
<p>1/ Claire can carry the loss back three years as she started trading</p> <p>so Loss is 91000 2017</p> <p>Carry back 2016 (7000)</p> <p>2015 (60000)</p> <p>2014 (24000)</p> <p style="text-align: center;"><u>0</u></p> <p>However this would waste her personal allowances in 2016 and 2015 so she may want to carry the loss first as she expects profit to use</p>						

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4. Perry ceased trading on 28 February 2017. Tax adjusted trading profits for recent periods were as follows:

	£
Year ended 30 June 2015	44,000
Year ended 30 June 2016	36,000
Eight months ended 28 February 2017	32,000

Perry had overlap profits brought forward of £11,500.

In the final accounts, a provision had been made for a bad debt as Perry believed the debt would not be paid.

You are required to:

- 1) Calculate Perry's trading income for 2016/17.
- 2) Briefly explain how a subsequent receipt in April 2018 of the bad debt should be treated for Income Tax purposes.

2016/17		
Y/E	30th June 16	36000
Y/E		
Cessation	28/ Feb 17	<u>32000</u>
		<u>68000</u>
Less overlap	$\frac{10}{12} \times 11500$	= (9583)
Trading Income		<u>58417</u>
2/ Perry has two options		
1/ to pay tax on the income		
in 2018/19 tax year assuming		
received after 5th April 2018 or		
2/ to elect to carry it back		
to the year the debt should have been paid in		

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return using the information from the partnership return.

Penalty may be charged if this is regarded as careless error. The maximum penalty is 30% but as the act seems careless rather than deliberate or deliberate & concealed this can be reduced by HMRC

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6. Paul retired on 1 January 2017 and transferred his sole trade business to his daughter Kerry, who has continued to operate the business.

The chargeable assets transferred were a warehouse used in the business and a small storage unit which Paul had always rented out to a third party.

Details of these assets are as follows:

		<u>Warehouse</u>	<u>Storage unit</u>
		£	£
1 June 2002	Original cost to Paul	65,000	20,000
1 January 2017	Market value	140,000	42,000
1 January 2017	Amount paid by Kerry	120,000	30,000

Kerry and Paul made a joint election for gift relief to apply where possible on the transfer of the business.

Calculate the chargeable gain on the transfer of the assets on 1 January 2017 and show the base cost of each asset for Kerry.

	<u>Ware House</u>	<u>Storage Unit</u>
<u>Paul</u>		
Cost	140 000	42 000
	(65 000)	(20 000)
Gain	<u>75 000</u>	<u>22 000</u>
Gift relief	(55 000)	(10 000)
Taxable gain	<u>20 000</u>	<u>12 000</u>
<u>Kerry</u>	<u>Ware House</u>	<u>Storage</u>
Base Cost	140 000	42 000
Less relief	(55 000)	(10 000)
Base cost on sale	<u>85 000</u>	<u>32 000</u>

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7. Debbie is a sole trader who prepared accounts to 31 July annually but has now changed her accounting date and prepared accounts for the 14-month period to 30 September 2016.

On 1 November 2015 Debbie sold a delivery van for £8,000. The van was sold for less than its cost and had only ever been used for business purposes.

On the same day, she purchased a new car costing £21,500, with CO₂ emissions of 68g/km. From 1 November 2015 to 30 September 2016 Debbie travelled a total of 18,000 miles in the car, of which 4,500 were private in nature.

The tax written down values at 1 August 2015 were £7,200 on the main pool and £18,800 on the special rate pool.

Calculate the maximum capital allowances for the 14-month period to 30 September 2016.

Capital allowances 30/9/16				
	Car	Main	SRP	Allow
Bal b/fwd		7200	18800	
Disposals				
Van		(8000)		
Additions				
Car	21500			
	21500	(800)	18800	
		5160 x 75%		3870
Car pool 18%	$\frac{16}{12} \times 21500$	$(\frac{16}{12} \times 800) \times \frac{75}{100}$		2902
Main Pool balancing		800	2005	(800)
SRP @ 8%	$\frac{16}{12}$		(2005)	2005
				5075

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	Car	Main	SRP	Allow
Bal b/fwd		7200	18800	
Disposal Van		(8000)		
Advt				
Car	<u>21500</u>			
	21500	(800)	18800	
Carpool $18\% \times \frac{14}{12}$	(4515) ^{USE Private}			6386
Main Pool 18 balancing		800		(800)
SRP @ $8\% \times \frac{14}{12}$			1758	1758
Allowances				<u>4344</u>
Bal c/fwd.	<u>16985</u>	<u>0</u>	<u>17042</u>	

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8. Samir prepared accounts for the year ended 31 March 2017 including the following expenses:

- 1) £8,000 for annual use of a private box at a local sports ground used to entertain clients.
- 2) £850 on legal fees for the renewal of a 15-year lease on the warehouse used in his business.
- 3) £3,400 on running costs for a car provided to an employee. The car is used 20% of the time by the employee personally.
- 4) £80 as a donation to a local charity not made under the gift aid scheme. The donation was made in return for a small advertisement in the charity newsletter.
- 5) £15,000 for replacement ovens in the on-site staff canteen which is open to all staff.

Briefly explain whether each of these expenses are allowable or disallowable for tax purposes.

1/	Client entertainment - disallowed
2/	Short lease so specifically allowed
3/	Costs allowed in full as private use of employee will be taxed through PAYE
4/	As there is an advert it is for trade so a permitted deduction
5/	Capital expenditure so should be calculated for capital allowances at 8% as an integral feature

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9. Adele incorporated her sole trade business on 1 August 2016 by transferring assets to a new company, ADL Ltd in exchange for 100% of the company issued share capital. The chargeable gains on incorporation were:

	£
Office building used in the business	180,000
Goodwill	100,000

Adele had taxable income for 2016/17 of £25,000 and capital losses brought forward at 6 April 2016 of £13,000. She has made an election to disclaim incorporation relief.

Calculate the Capital Gains Tax liability on the incorporation of the business.

Gains are	180 000
	<u>100 000</u>
	280 000
Less Loss b/fwd	<u>(13 000)</u>
	267 000
Income Tax ^{inc.}	11 100
32 000 - 22 000	<u>260 100</u>
25 000	
Less P/A 11 000	
Taxable income <u>14 000</u>	
32 000 - 14 000 = 18 000	
Taxable gain at 10% 18 000 = 18 00	
20% 24 200 = 48 400	
<u>50 200</u>	

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ER does not apply as she owns more than 5% of the company and they are connected persons.

ER = Entrepreneurs Relief

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10. Oliver and Poppy have been in partnership for many years, sharing revenue and capital profits and losses on a 60:40 basis. The partnership purchased a property for use in its trade on 1 April 2004 for £280,000.

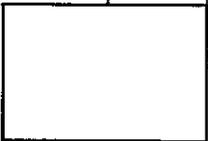
Poppy left the partnership on 31 March 2017, with ownership of the business property passing to her. At 31 March 2017 the property was valued at £400,000.

You are required to calculate:

- 1) The chargeable gain(s) arising on 31 March 2017 as a result of the property being transferred to Poppy.
- 2) Poppy's base cost of the property after the transfer.

	60%	40%
	Total	Oliver
		Poppy
Property Sold MV to Poppy	400000	240000
Less Cost	(280000)	(168000)
Gain	<u>120000</u>	<u>72000</u>
Oliver Gain 72000 Less Annual Expt (11100) Taxable gain <u>60900</u>		
Poppy's base cost is £ 400 000 Less gain not charged 48000 <u>352000</u> Base cost		

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11. Nick, Tim and Caroline formed a limited liability partnership (LLP) on 1 January 2015. Nick and Tim introduced £100,000 each into the business to purchase a small office and provide working capital. The LLP agreement states that Caroline is entitled to a fixed profit share of £70,000 per annum for the four days per week she works in the business, and any remaining profits are shared equally between Nick and Tim.

Caroline works Monday to Thursday each week and Nick and Tim hold the partners' meeting on Fridays to discuss the business plans.

Briefly explain how the LLP profits are subject to Income Tax and National Insurance Contributions.

An LLP profits are treated as a general partnership so each partner is treated as self employed and having trading income.

However there are anti avoidance provisions and Caroline's 70 000 salary is fixed and not in any way related to the profit of the business and all the partnership meetings are held on a Friday so she has no say in the business operations. It is likely that Caroline will be seen as a disguised employee and subject to PAYE and NI Class 1 as opposed to class 2 & 4 National Insurance. Caroline has not introduced any capital either.

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12. Rick sold a property on 1 March 2017 for £1.2 million with the consideration to be paid in five instalments. Rick received £200,000 on 1 March 2017 with a further four instalments of £250,000 each, payable annually thereafter.

The total Capital Gains Tax liability in respect of the property amounts to £230,800.

Briefly explain when the Capital Gains Tax liability is payable assuming Rick elects to pay by instalments.

Payment 4 is in tax year 2016/17 so tax is due to be paid on 31st January 2018
Instalment 2 is paid March 2018 Tax year 2018-19 so due 31 January 2019
Instalment 3 is paid March 2019 Tax year 2019-20 so due 31 January 2020
Instalment 4 is paid March 2020 Tax year 2020-21 so due 31 January 2021
Instalment 5 is paid March 2021 Tax year 2021-22 so due 31 January 2022 But if he opts opts to pay

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tax in instalment due over 10 years with $\frac{1}{10}$ th payable every year starting on 31 January 2018 and paid annually at 10% each year. If he fails to pay an instalment the instalment system is withdrawn.

Must pay interest on the tax outstanding at 3% per annum.

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