



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2019

Suggested solutions

Awareness Module E Taxation of Unincorporated Businesses

1.

Profit seeking motive – Sunil intended to make a profit; it does not matter than the transaction resulted in a loss for Sunil.	1
Frequency and number of transactions – not a one-off transaction	1
Modification of the asset – Sunil worked on the asset to increase its value	1
Length of ownership – sofa bought and sold in a short period of time	1
Reason for purchase – bought for re-sale, not for his personal use.	1

1 mark awarded for any valid point up to a maximum of 5

2.

Tax year	Basis period		Profit £	Overlap memo £	
2015/16	01/03/16 to 05/04/16	$((1/6) \times \text{£}36,000)$	6,000		1
2016/17	01/03/16 to 31/08/16		36,000	(6,000)	1
	01/09/16 to 28/02/17	$((6/12) \times \text{£}120,000)$	60,000		
			<u>£96,000</u>		
2017/18	01/09/16 to 31/08/17		<u>£120,000</u>	(60,000)	1
2018/19	01/09/17 to 30/06/18		80,000		1
	Less overlap profits		(66,000)	66,000	1
			<u>£14,000</u>		

3.

	£	£	
10,000 miles at 45p per mile	4,500		1
2,000 miles at 25p per mile	<u>500</u>		1
		5,000	
Parking		96	1
Business proportion of interest $((12,000/15,000) \times \text{£}400)$		320	1
		<u>£5,416</u>	1*

***Mark awarded for not including any other costs**

4.

- The cost of the event is disallowed as it is business entertaining. 1
- The gift of samples is allowed as this is the gift of items which it is Peter's trade to provide. 1
- The gift of wine to the regular customers is disallowed because it is a gift of alcohol. 1
- The gift of the vase is disallowed because the total cost per person exceeds £50. 1
- The gift of flowers is allowable as this is to a staff member 1

5.

	£	General pool £	Special rate pool £	Allowances £	
Bfwd		32,000	4,000		
Electric car 100% FYA	22,000 <u>(22,000)</u>	nil		22,000	1
Van AIA	16,000 <u>(16,000)</u>	nil		16,000	1
Petrol car			29,000		1
		<u>32,000</u>	<u>33,000</u>		
WDA at 18%		(5,760)		5,760	1*
WDA at 8% (no PU adj)			(2,640)	2,640	1
WDV cfwd		<u>£26,240</u>	<u>£30,360</u>		
Maximum capital allowances				<u>£46,400</u>	

6.

The compensation should be **included in calculating trading income as it relates to revenue expenditure** incurred wholly and exclusively for the purposes of the trade. 1

The general rule is that Imogen should **not include the rent** in calculating her trading profit - instead, the rent should be deducted in the adjustment of profit calculation and then brought into account as income of a property business. 1

However, Imogen **may treat the rent as trading income** if she meets all of the following conditions: 1

1. The let part of the premises is temporarily surplus to requirements.
2. Another part of the building is being used for Imogen's trade.
3. The receipts are relatively small. 2*

This would appear to be the case here and so Imogen may include the rent in calculating her trading income.

***1 mark given for any conditions set out in the legislation up to a maximum of 2.**

7.

Part 1

	Total £	Annette £	Barbara £	Carla £	
Profit	40,000				
Salaries	(50,000)	25,000	25,000		1
Residual loss 40/40/20	<u>(10,000)</u>	(4,000)	(4,000)	(2,000)	1
		<u>21,000</u>	<u>21,000</u>	<u>(2,000)</u>	
21,000/(21,000 + 21,000)		(1,000)	(1,000)	2,000	1
Trading profit/loss		<u>20,000</u>	<u>20,000</u>	nil	

Part 2

Class 4 NICs	£		£	
Up to lower profits limit	8,424	0%	nil	
Above lower profits limit	11,576	9%	1,042	
			<u>£1,042</u>	1
Class 2 NICs	£2.95	52	£153	1

8.

Part 1

2018/19		£	£	
2/5 x (£30,000)		(12,000)		1
Overlap relief		<u>(14,000)</u>		1
			(26,000)	
2017/18				
3/5 x (£30,000)		(18,000)		
7/12 x £48,000		28,000		1
		<u>10,000</u>		
Profit ignored in calculating terminal loss			Nil	1
			<u>(£26,000)</u>	

Part 2

Deadline is 4 years from end of tax year of cessation – 5 April 2023 1

9.

	ER £	Non-ER £	
Material disposal	400,000		
Associated disposal:			
Non-business use ((2/7) x £210,000)		60,000	1
Business use ((5/7) x £210,000)	150,000		
Restriction for rent (£150,000 x (3/5) x 50%)	(45,000)	45,000	1+1
	<u>505,000</u>	<u>105,000</u>	
Annual exemption		(11,700)	1
Taxable gains	<u>£505,000</u>	<u>£93,300</u>	
CGT at 10%	£50,500		
CGT at 20%		£18,660	1
Total CGT payable	<u>£69,160</u>		

10.

Part 1)

The conditions are as follows:

The business must be transferred as a going concern	1
All of the assets must be transferred (apart from cash)	1
The consideration must be wholly or partly shares in the company	1

Max. 2 marks for Part 1

Part 2

	£	
Gains	230,000	
Incorporation relief (balancing figure)	(218,300)	1
Taxable gain	<u>£11,700</u>	
£230,000 x (shares/£480,000) = £218,300		1
Shares = £455,583		
Loan stock (£480,000 - £455,583)	<u>£24,417</u>	1

11.

Sale of the building			
	£	£	
Proceeds		205,000	
Market value at transfer	(180,000)		1+1
Notional loss (working)	<u>(65,000)</u>		1
		(245,000)	
Allowable loss for Aryan		<u>£(40,000)</u>	
		£	
Market value (£180,000 x 50%)		90,000	1
Cost (£310,000 x 50%)		(155,000)	1
Notional loss		<u>£(65,000)</u>	

12.

Part 1

5 October 2017 (ie 6 months from the end of the tax year in which he became chargeable) **1**

Part 2

The penalty will be calculated as a percentage of potential lost revenue (PLR). The percentage will be determined by James' behaviour.

PLR is the amount of Income Tax outstanding at 31/01/2018 as a result of the failure to notify - £420. **1**

The failure was **neither deliberate nor concealed**. Therefore, the maximum penalty is 30%. **1**

The penalty may be **reduced** to as low as 0% as:

1. it was **unprompted** and **1**
2. the **tax was paid within 12 months** of the due date (31/01/18). **1**