

The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

November 2025

Suggested answers

49)

	£	
Profit before tax	80,000	
Add restriction for high emission car: £4,800 x 15%	720	1
Add fine	1,500	1
Add premium paid	20,000	1
Less allowable element of premium (Working)	<u>(1,230)</u>	1
Taxable trading profit	<u>£100,990</u>	

Working

£20,000 x [(50-(10-1))/50] = £16,400		1
(£16,400/10) x (9/12) = £1,230		

50)

	£	
1) Actual expenses		
Fuel costs and parking charges: £(2,100 + 320)	2,420	1
Capital allowances:		
£22,000 x 6% x (12,000/18,000)	880	1+1
Total allowable deduction	<u>£3,300</u>	
2) Flat rate expenses		
(10,000) x 45p + (2,000 x 25p)	5,000	1
Parking charges	320	
Total allowable deduction	<u>£5,320</u>	1*

***For including parking charges and no other actual expenses**

51)

Nimra

	£	
Sales (excluding debtors): £37,000 - £600	36,400	1
Purchases (excluding cost of goods taken): £8,000 - £200	(7,800)	1
Laptop (business use only): £1,200 at 70%	(840)	1
Work from home: £26 x 12 months	(312)	1
Taxable trading profit	<u>£27,448</u>	

Minal

	£	
Sales receipts	1,900	
Less trading allowance	<u>(1,000)</u>	
Taxable trading profit	<u>£900</u>	1

52)

The replacement of the roof is a repair and Rajesh may claim a deduction for the full amount in calculating his taxable trading profit for the year ended 31 March 2025. 1

The expenditure on the installation of air conditioning is capital expenditure on an integral feature. Rajesh will be able to claim the annual investment allowance equal to 100% of the cost in calculating his taxable trading profit for the year ended 31 March 2025. 1

The construction expenditure, but not the cost of the land, qualifies for structures and buildings allowances (SBAs). 1

SBAs are given at the rate of 3% per annum on a straight line basis. Therefore $3\% \times \pounds 140,000 = \pounds 4,200$ for a 12 month period. 1

As the building was only in use for 5 months during the period ended 31 March 2025, the SBAs are reduced proportionately to $5/12 \times \pounds 4,200 = \pounds 1,750$. 1

53)

	£	Adam £	Malcolm £	Travis £	
Trading profit	80,000				
Salaries	(100,000)		55,000	45,000	1
Allocate residual loss (20:40:40)	(20,000)	(4,000)	(8,000)	(8,000)	1
		(4,000)	47,000	37,000	
Reallocate notional loss (Working)		4,000	(2,238)	(1,762)	1
Taxable trading income		Nil	£44,762	£35,238	

Class 4 NICs
 $(\pounds 35,238 - \pounds 12,570) \times 6\%$ £1,360 **1+1**

Working

$\pounds 47,000 / (\pounds 47,000 + \pounds 37,000) \times \pounds 4,000 = \pounds 2,238$

$\pounds 37,000 / (\pounds 47,000 + \pounds 37,000) \times \pounds 4,000 = \pounds 1,762$

54)

	2021/22 £	2022/23 £	2023/24 £	
Employment income	45,000	60,000	42,000	
Early trade loss relief (Note)	(45,000)	(50,000)	(40,000)	3*
Net income	<u>£Nil</u>	<u>£10,000</u>	<u>£2,000</u>	

Loss memo: $\pounds 135,000 - \pounds 45,000 - \pounds 50,000 - \pounds 40,000 = \pounds \text{Nil}$

The claim must be made by 31 January 2027. 1

Note:

Loss relief against non-trading income is restricted to the greater of £50,000 and 25% of adjusted total income, therefore a maximum of £50,000 in 2022/23. 1

1 mark for carry back three years; 1 mark for carry back against earliest year first; 1 mark for carry back against net income (before the personal allowance).

55)

	£	
Trading loss for 2024/25	50,000	
Less offset against net income for 2023/24 (Working 1)	(18,000)	
Less offset against capital gain for 2023/24 (Working 2)	(19,000)	
Trading loss remaining	<u>£13,000</u>	1*

<u>Working 1</u>	2023/24	2024/25	
	£	£	
Net income	18,000	10,000	
S.64 claim for current year (no claim made)		-	1
S.64 claim for prior year	(18,000)		1
Revised net income	<u>£Nil</u>	<u>£10,000</u>	

Working 2

Claim is lower of:		
- Trading loss remaining after s.64 claim: £(50,000 - 18,000) = £32,000		
- Relevant maximum: £(26,000 - 7,000) = £19,000		1+1

***No restriction for personal allowance or annual exempt amount**

56)

Agnes' chargeable gain

	£	
Proceeds (MV)	200,000	
Cost	(40,000)	
Gain	<u>160,000</u>	1
Gift relief (3/5 x £160,000)	(96,000)	1
Chargeable gain	<u>£64,000</u>	

Base cost for Hannah

	£	
Cost	200,000	
Gain held over	(96,000)	
Base cost	<u>£104,000</u>	1

Agnes and Hannah must make a joint claim for gift relief by 5 April 2029. **1+1**

57)

Gain on warehouse

	£	
Proceeds	400,000	
Less, cost plus selling costs (£82,000 + £2,000)	(84,000)	1
Less enhancement expenditure	(38,000)	1
Gain	<u>278,000</u>	
Rollover relief	(198,000)	1+1
Chargeable gain: £(400,000 – 320,000)	<u>£80,000</u>	

Base cost of factory

	£	
Cost	320,000	
Gain rolled over	(198,000)	
Base cost	<u>£122,000</u>	1

58)

Capital Gains Tax

The contribution of cash has no CGT implications but the transfer of the building gives rise to a chargeable gain for Debbie as she has disposed of part of her interest in the building. 1

Her proceeds are equal to 80% of the market value of the building and the allowable cost is equal to 80% of the cost, so her gain is £72,000 (£200,000 x 80%) – (£110,000 x 80%). 1

As the brought forward loss relates to a disposal to a connected person, it can only be used against gains on disposals to that same person, and so cannot be offset against the gain on the disposal of the building. 1

Debbie's base cost for her 20% interest in the building is the remaining allowable cost of £22,000 (£110,000 - £88,000). 1

Income Tax

The loan is a qualifying loan and so a deduction for the interest payable may be made in calculating Debbie's net income. 1

59)

Ben

Profit-seeking motive. He is carrying on the activities with a view to making a profit. 1

Frequency: He is carrying on the activities on a regular basis. 1

Modification of the asset. He works on the clothes to add value before he sells them. 1

Jason

Reason for acquisition. He bought the trainers for his personal use, not to sell them. 1

Length of ownership. He owned the trainers for a long time before selling them. 1

Credit given for any reasonable reason with reference to a badge of trade not listed above.

60)

	£	
Income Tax	1,486	
Class 4 NICs	594	
CGT	<u>3,800</u>	
Tax due for 2023/24	5,880	1
POA for 2024/25 ((£1,486 + £594)/2)	<u>1,040</u>	1+1
Tax payable on 31 January 2025	<u>£6,920</u>	
Penalty: 5% x £5,880	<u>£294</u>	1+1