The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

May 2026

Suggested answers

Answer 49

	£	
Trading income (*Working*)	64,500	
Property income	15,000	
Total income	79,500	1
Personal Allowance	(12,570)	1
Taxable income	£66,930	
Income Tax:		
£37,700 x 20%	7,540	
£29,230 x 40%	11,692	
	19,232	1
Add basic rate Income Tax retained on patent royalty paid	100	
Income Tax liability	£19,332	1

Working

	£	
Trading income	65,000	
Less patent royalty (£400 x 100/80)	(500)	1
	£64,500	

Answer 50

1) 1 March 2026 (three months after the issue of the return). 1

2) Penalty for late filing: £100 1
   Penalty for late payment: 5% x £(19,296 + 3,352) = £1,132 1+1
   Interest on late payment: £32,296 x 7% x 2/12 = £377 1

Answer 51

	£	
Land	-	
Levelling of land	55,000	1
Construction of workshop	145,000	1
Fixtures and fittings	-	
	£200,000	1*
SBAs for 10 month period ended 31 March 2026		
£200,000 x 3% x 2/12	£1,000	1+1

** For excluding both the land and the fixtures and fittings.*

Answer 52

	£	£	
2024/25: 6 April 2024 to 5 April 2025			
6 April 2024 – 30 June 2024: 3/12 x £15,000	3,750		
1 July 2024 – 5 April 2025: 9/12 x £10,000	7,500		
		11,250	1
Plus transitional profits: 20% x £4,000		800	1
		£12,050	
2025/26: 6 April 2025 – 31 January 2026			
6 April 2025 – 30 June 2025: 3/12 x £10,000	2,500		
1 July 2025 – 31 January 2026	6,000		
		8,500	1
Plus transitional profits: 20% x £4,000 x 3		2,400	1+1
		£10,900	

Answer 53

The adjustment income is calculated as:

Opening stock £8,700 + Opening debtors £2,800 – Opening creditors £4,300 = £7,200 1+1+1

In the absence of an election, this adjustment income is spread equally over 6 years, so £7,200/6 = 1
£1,200 per year is added to Laurence's trading profit, starting in 2025/26. 1

Answer 54

1) Pre-trading expenditure is deductible and treated as being incurred on the first day of trading, 1
provided it was incurred within 7 years of the start of trade and would have been allowable 1
had Helen been trading at the time it was incurred.

2) The cost of the building and the associated legal fees are not deductible as they are capital in 1
nature.

The cost of the roof repair is not deductible as it is capital expenditure, as it was necessary to 1
enable the building to be used for its intended purpose, and the purchase price reflected this.

The cost of the stock is an allowable expense. 1

Answer 55

	£	
Draft trading profit	96,250	
Less hire purchase van payments: 7 x £600	(4,200)	1
Less capital allowances on car: £56,000 x 6% x 4,000/6,000	(2,240)	1+1
Less business use of home: 12 x £18	(216)	1
Add goods for own use (cost price)	800	1
Taxable trading profit	£90,394	

Answer 56

Year ended 30 April 2026		Steve	Michelle	Noah	
	£	£	£	£	
Partnership loss	(110,000)				
Salary to Steve	(10,000)	10,000			1
	£(120,000)				1
Balance shared equally		(40,000)	(40,000)	(40,000)	1
Year ended 30 April 2026		£(30,000)	£(40,000)	£(40,000)	

2025/26 - Steve		
6 April 2025 – 5 April 2026	£	
1/12 x £24,000 profit	2,000	1
11/12 x £30,000 loss	(27,500)	1
Trading loss	£(25,500)	

Answer 57

Although £28,000 of the trading loss of 2024/25 was relieved against total income of £28,000 in 2024/25 under s.64 ITA 2007, for Class 4 National Insurance purposes the entire loss of £44,000 is carried forward to reduce the trading profit in 2025/26. 1

	£	
Trading profit of 2025/26	106,000	
Less trading loss brought forward from 2024/25	(44,000)	
	£62,000	1
Class 4 National Insurance:		
£(50,270 – 12,570) x 6%	2,262	1+1
£(62,000 – 50,270) x 2%	235	1
	£2,497	

Answer 58

		£	
1)	Proceeds of sale of land	65,000	
	Less cost: £50,000 x £(65,000/(65,000 + 260,000))	(10,000)	1+1
	Gain	55,000	
	Less rollover relief	(55,000)	
	Chargeable gain	£Nil	1
	Base cost of workshop:		
	Cost	80,000	
	Less gain rolled over	(55,000)	
	Base cost	£25,000	1
2)	5 April 2030.		1

Answer 59

1) Incorporation relief would defer the gains on the transfer of the chargeable assets of the business against the base cost of the shares in the company. 1

The base cost of the shares in the company would therefore be £(990,000 – 250,000) = £740,000. 1

The base costs of the chargeable assets in the company would be market value at the date of the transfer. 1

2) If Simon and the company jointly claim gift relief, the gains on the transfer of the chargeable assets of the business would not affect the base cost of the shares in the company. The claim would instead reduce the base cost of each chargeable asset transferred to the company as follows: 1

	Retail shop	*Warehouse*	
	£	£	
Market value at the date of transfer	850,000	100,000	
Less gift relief	(225,000)	(25,000)	
Base costs	£625,000	£75,000	1

Answer 60

	BADR	*Other*	
	£	£	
Shares	795,000		
Office building (associated disposal)	205,000	45,000	
Max BADR gains = £1 million of gains	1,000,000	45,000	1+1
Annual exemption		(3,000)	1
Taxable gains	£1,000,000	£42,000	
Capital Gains Tax rate	14%	24%	
Capital Gains Tax liability (Total £150,080)	£140,000	£10,080	1+1