

The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

May 2022

Suggested solutions

49)

- | | | |
|----|--|----------|
| 1) | 5 October 2021. | 1 |
| 2) | Minimum penalty for <u>unprompted disclosure within 12 months</u> of the tax becoming unpaid is <u>nil</u> . | 1+1
1 |
| | Maximum penalty is <u>30% of potential lost revenue</u> , so 30% x £8,057 = £2,417. | 1 |

50)

	£	
Draft trading profit	93,000	
Debt written off (amount taxed on employee)	-	1
Repairing business premises (amount covered by insurance)	7,500	1
Premium paid on lease of warehouse	10,000	1
Allowable amount: £10,000 x (50 – 9)/50 = <u>£8,200/10</u> x <u>3/12</u> *	(205)	1
Rent payable: £12,000 x <u>3/12</u> *	(3,000)	1*
	£107,295	

* For prorating both the lease premium allowable amount and the rent payable.

51)

	£	£	
VW Golf			
- Finance lease <u>interest (£1,200) and depreciation (£2,000)</u>	3,200		1*
- Fuel	660		1
		3,860	
Audi TT			
- Allowable amount of lease cost: £4,800* x <u>85%</u>	4,080		1
- Fuel	1,400		1
	5,480		
£5,480 x 9,000/15,000		3,288	1**
		£7,148	

* For including both the finance lease interest and depreciation.

** For applying the business use restriction to the Audi TT only

52)

	£	£	
Draft trading profit	67,000		
Less patent royalty paid: <u>£1,600 x 100/80</u>	(2,000)		1
		65,000	
Rental income		15,000	
Less personal allowance		(12,570)	
Taxable income		£67,430	1
Income Tax:			
£37,700 x 20%		7,540	1
£29,730 x 40%		11,892	1
Add basic rate tax on patent royalty paid net: £2,000 x 20%		400	1
Income Tax liability		£19,832	

53)

	£	£	
Trading profit 2021/22	90,000		1
Less trading loss of 2020/21 used against non-trading income			
- 2019/20: Rental income	(20,000)		
- 2020/21: Rental income	<u>(28,000)</u>		
Trading profits subject to Class 4 NIC		<u>£42,000</u>	1

Class 4 NIC			
£9,568 x 0%			1
£32,432 x 9%		2,919	1

Class 2 NIC			
£3.05 x 52		159	1

54)

		£	
2019/20	1 November 2019 – 5 April 2020 5/15 x £22,500	7,500	1
2020/21	12 months to 31 January 2021 1 February 2020 – 31 January 2021 = 12/15 x £22,500	18,000	1
2021/22	Current year basis Year ended 31 January 2022	19,500	1
	Overlap profits are from <u>1 February 2020 to 5 April 2020</u> = 2/15 x £22,500	3,000	1+1

55)

- 1) Year ended 31 December 2021: £(600,000 – 150,000) = £450,000 x 3% x 10/12 £11,250 1+1+1
- 2) On the sale of the warehouse on 1 December 2021, there is no balancing adjustment. 1
A chargeable gain will arise, and the proceeds of sale are increased by the SBAs claimed of 1+1
£11,250 to £711,250.

Max 5 marks

56)

The trading loss could be carried forward indefinitely against future trading profits of the same trade. 1

A current year claim could be made against total income of 2021/22 and/or carried back against total income of 2020/21, but this will be subject to a maximum of the higher of £50,000 and 25% of adjusted total income 1+1
1+1

As the trading loss was incurred in 2021/22, temporary extended loss relief is available. After a current year or a carry back claim, the loss can be carried back against profits of the same trade for up to three years (on a LIFO basis). 1
1

Max 5 marks

57)

	£	Bridget £	Connor £	Maria £	
Trading loss	(120,000)				
Salary	(60,000)	60,000			1
Balance	<u>(180,000)</u>				
Balance shared 2:3:5		(36,000)	(54,000)	(90,000)	1
		24,000	(54,000)	(90,000)	
Reallocate Bridget's notional profit					1*
To Connor:					
54,000/(54,000 + 90,000) x £24,000		(9,000)	9,000		1**
To Maria:					
90,000/(90,000 + 54,000) x £24,000		(15,000)		15,000	
Trading loss	<u>£(120,000)</u>	<u>£Nil</u>	<u>£(45,000)</u>	<u>£(75,000)</u>	1***

* For any attempt at reallocation of notional profit.

** For the correct reallocation of notional profit.

*** For showing £Nil for Bridget.

58)

	Shop £	Warehouse £	Goodwill £	
Gains	70,000	40,000	15,000	
Less gift relief (balance)	(70,000)	(30,000)	(Nil)	1
Chargeable gain (working)	<u>£Nil</u>	<u>£10,000</u>	<u>£15,000</u>	
Total chargeable gains £(10,000 + 15,000)			25,000	
Less Annual exemption			(12,300)	1
Taxable gain			<u>£12,700</u>	
Capital gains tax at 10% (BADR)			£1,270	1
<u>Working</u>				
Chargeable gain =	Shop	Warehouse		
The excess of actual consideration	£	£		
Over original cost	45,000	30,000		
	(50,000)	(20,000)		
	<u>£Nil</u>	<u>£10,000</u>		1+1

59)

The gain on the disposal of the premises will qualify for BADR as an associated disposal, as Ishmail: 1

- Is withdrawing from the partnership by disposing of his partnership share and 1
- The premises were being used in the partnership for at least 2 years prior to disposal and 1
- The disposal of the partnership share qualifies for BADR. 1

However, as Ishmail charged the partnership rent for the use of the premises, BADR will be restricted. 1

As the rent charged was 40% of the full market rent (£2,000/£5,000), BADR is only available on 60% of the gain (60% x £240,000 = £144,000). 1

Max 5 marks

60)

The amount of £39,409 was due on 31 January 2022, 1

Interest is charged at the HMRC rate of 2.6% for the 41 days that the liability was late, so £39,409 1
x 2.6% x 41/365 = £115. 1+1

In addition to interest, a penalty of 5% x £29,659 = £1,483 will be charged on the balancing 1
payment only as it is more than 30 days late. There are no penalties charged on late payments
on account.