

May 2019

Awareness Module E: Taxation of Unincorporated Businesses

1. In September 2018, Sunil bought a sofa from a charity shop with the intention of reupholstering and selling it for a profit. He sold the sofa in January 2019 at a loss having spent more than anticipated on materials. Sunil intends to buy another sofa to reupholster and sell in the future.

**With reference to the badges of trade, briefly explain five relevant factors which suggest that Sunil is carrying on a trade.**

2. Jasmine began trading on 1 March 2016 and ceased on 30 June 2018. Her results were as follows

	<u>Profit</u> £
Six-month period ended 31 August 2016	36,000
Year ended 31 August 2017	120,000
10-month period ended 30 June 2018	80,000

**Calculate Jasmine's assessable trading profit for each tax year.**

3. Erin began trading as a wedding photographer on 1 October 2017. On 12 October 2017, she bought a car under a hire purchase contract. Erin's motor expenses for the year ended 30 September 2018 were as follows:

	£
Petrol	4,800
Road tax, servicing and maintenance	320
Parking (business journeys only)	96
Fine (business journey)	60
Interest paid on the hire purchase contract	400

Erin drove 12,000 business miles during the year ended 30 September 2018. Her total mileage was 15,000 miles.

**Calculate Erin's allowable deduction for her motor expenses assuming that she claims flat rate expenses.**

4. Peter runs a successful hairdressing salon: PCutz. In May 2018, Peter held an event at his salon to celebrate his first 10 years in business. Approximately 100 customers attended and the cost of food and drink for the evening was £1,800.

In addition, Peter gave the following gifts:

- 1) His best customers each received a glass vase with the PCutz logo embossed on the side at a cost of £75 per vase.
- 2) His other regular customers each received a bottle of wine with the PCutz logo on the label at a cost of £10 per bottle.
- 3) The remaining customers on his database were provided with samples of the hairdressing products sold by PCutz at a cost of £5 per gift.

In August 2018, Peter gave one of his employees a bouquet of flowers to celebrate her engagement. The flowers cost £25.

**Briefly explain whether Peter is able to deduct the cost of the entertainment and gifts in calculating his taxable trading profit.**

5. Roman runs a recruitment consultancy. He incurred the following capital expenditure during the year to 30 April 2019:

	<u>Cost</u>
	£
Electric Car (CO <sub>2</sub> emissions: 0g/km)	22,000
Diesel Van (CO <sub>2</sub> emissions: 120g/km)	16,000
Petrol Car (CO <sub>2</sub> emissions: 155g/km)	29,000

All of the vehicles were newly-registered. Roman bought the petrol car for the exclusive use of a new employee. It was used 30% for business purposes. The electric car and the van were available to all staff for business use only.

The value of Roman's general pool at 1 May 2018 was £32,000 and the special rate pool £4,000.

**Calculate the maximum capital allowances available for the year ended 30 April 2019.**

6. Imogen carries on a trade from a freehold building that she bought in 2007. In calculating her taxable trading profit for the year ended 31 March 2019, Imogen has included the following receipts as income of her trade:

	£
Proceeds from insurance claim	3,000
Rent received	1,200

The insurance claim relates to expenditure incurred by Imogen in June 2018 in making repairs to the building as a result of storm damage. This expenditure was a revenue expense.

The rent received relates to a small part of the building which Imogen began to let to an unconnected party on 1 February 2019. The agreement is for 12 months with rent payable of £600 per month. When the agreement ends, Imogen will again occupy the entire building for the purposes of her trade.

**Briefly explain whether Imogen should include the insurance proceeds and the rent in calculating her taxable trading profit.**

7. Annette, Barbara and Carla have traded in partnership for a number of years. For the year ended 31 December 2018, the partnership had a tax-adjusted trading profit of £40,000.

The partnership agreement states that profits are to be shared as follows:

	<u>Salary</u>	<u>Profit share</u>
	£	
Annette	25,000	40%
Barbara	25,000	40%
Carla	nil	20%

**You are required to calculate:**

- 1) **The share of trading profit or loss for each partner for the year ended 31 December 2018.**
- 2) **The National Insurance Contributions payable by Annette for 2018/19.**

8. Lyra has traded for a number of years, preparing accounts to 31 December. She ceased trading on 31 May 2018. Her results for recent years were as follows:

	£
Year ended 31 December 2017	48,000
Period ended 31 May 2018	(30,000)

She had overlap profits of £14,000.

**You are required to:**

- 1) Calculate Lyra's terminal loss.
  - 2) State the date by which Lyra must make a claim for terminal loss relief.
9. On 30 April 2018, Carla sold her entire shareholding in Carlz Ltd, realising a chargeable gain of £400,000. The sale of the shares was a material disposal for the purposes of entrepreneurs' relief.

On the same day, Carla sold a commercial building, realising a chargeable gain of £210,000. The sale of the building was an associated disposal for the purposes of entrepreneurs' relief.

Carla had bought the building on 1 May 2011 and used it as follows:

<u>Period</u>	<u>Number of years</u>	<u>Use</u>
1 May 2011 to 30 April 2013	2	Let to an unconnected party
1 May 2013 to 30 April 2015	2	Used by Carlz Ltd in its trade – no rent paid
1 May 2015 to 30 April 2018	3	Used by Carlz Ltd in its trade – rent paid equal to 50% market rate
	<u>7</u>	

Carla was an additional rate taxpayer for 2018/19. She did not dispose of any other chargeable assets in 2018/19.

**You are required to calculate Carla's Capital Gains Tax liability for 2018/19.**

10. Joe is considering transferring his sole trade business, including all of the assets of the business, to a newly-formed limited company. In exchange, Joe will receive shares in the company and loan stock. The market value of the business is £480,000. The disposal would result in total gains of £230,000.
- 1) Briefly explain the conditions which must be met for incorporation relief to apply to the transfer.
  - 2) Calculate the amount of loan stock Joe should receive to give a taxable capital gain equal to the annual exempt amount, assuming that incorporation relief applies.

11. Aryan and Paul have been in partnership for many years, sharing income and capital profits equally.

On 1 June 2018, building was transferred to Aryan, which the partnership had bought for £310,000 in 2004. The market value of the building on 1 June 2018 was £180,000.

On 1 May 2019, Aryan sold the building for £205,000.

**Calculate Aryan's chargeable gain/allowable loss on the sale of the building on 1 May 2019.**

12. On 1 August 2016, James began to take on self-employed work in the evenings and weekends. James was not aware that he needed to notify HMRC of his new source of income, nor that he needed to complete a tax return. He became aware of his error in March 2018.

In April 2018, James submitted a 2016/17 tax return showing a trading profit of £2,100 and he paid the Income Tax liability of £420.

Prior to submitting his return, James had no reason to believe that HMRC were aware of his error.

- 1) **State the deadline by which James should have notified HMRC of his new source of income.**
- 2) **Briefly explain how the penalty for late notification will be calculated.**