

# The Chartered Institute of Taxation

## AWARENESS

November 2022

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correct question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

## Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Marcus started trading on 1 January 2022 and registered for VAT on 1 October 2022.

His main expense has been stock. Of the stock purchased since 1 January 2022, approximately 60% was on hand on 1 October 2022.

His other expenses include an invoice for one-off legal services relating to taking on employees. The invoice was issued and paid in February 2022.

All items included VAT at the standard rate.

**Explain if and how Marcus may recover input VAT incurred prior to 1 October 2022.**

2. Caitlin is not VAT registered. She has traded for a number of years, making taxable supplies of approximately £6,500 per month.

Caitlin will make taxable supplies to a new customer, Sheila, of £20,000 on 18 November 2022, and a further £10,000 on 15 February 2023.

**Explain whether Caitlin is required to charge VAT on the supplies to Sheila.**

3. Trihs Ltd provides accountancy services.

On 28 August 2022, the company entered into a three-year contract with a supplier providing virtual desktop services for a fixed amount each month. The first invoice, which related to services for the month ended 30 September 2022, was raised on 4 October 2022. Trihs Ltd paid this on 28 September 2022.

On 2 October 2022, Trihs Ltd took delivery of a photocopier. It had received an invoice for the photocopier on 20 September 2022 and paid it on 25 September 2022.

**Explain how the tax points are determined in respect of the above.**

4. On 1 October 2022, Toob Ltd entered into a three-year agreement to lease a car. The car was made available to Kai, an employee, for business and personal use.

Each month the company pays a leasing charge and a separate maintenance charge. Input VAT for October was £120 in respect of the leasing charge and £30 for the maintenance charge.

Kai submitted a business mileage claim relating to a journey to a client's premises on 20 October. The fuel element of the claim, calculated using HMRC's advisory fuel rates, was £60. In support of the claim, Kai provided a petrol receipt for £70 dated 22 October.

**Explain, with calculations, the amount of input VAT the company may recover for October in relation to the car.**

5. Sevracs Ltd has a VAT year-end of 30 September. On 15 July 2022, it purchased a freehold (Scots Law – ownership) interest in a new warehouse for £800,000, plus VAT of £160,000. In the year to 30 September 2022, 70% of supplies made by the company were taxable. It expects 60% of supplies to be taxable in the year to 30 September 2023.

**Explain, with calculations, the VAT implications of the purchase of the new warehouse.**

6. Terry, a hairdresser, uses the flat rate scheme.

For the quarter ended 31 October 2022, his turnover was £20,000.

His costs were £6,000 for rent, £920 for hair products and £700 for a new computer.

All amounts are inclusive of VAT.

**Explain whether Terry is a limited cost trader for the quarter ended 31 October 2022.**

7. Amira owns a commercial building which has been empty for some time.

On 1 August 2022, she opted to tax the building in order to recover input VAT on repairs.

In late October 2022, she entered into negotiations with a potential tenant, Clive. Clive makes wholly-exempt supplies. Should the negotiations be successful, Clive will occupy the premises from 1 December 2022.

In light of the negotiations, Amira is considering revoking the option to tax.

**Explain the implications for Amira of revoking the option to tax and the deadline, if any, for doing so.**

8. Rudy makes both exempt and taxable supplies.

He has agreed to sell part of his business to Reppils Ltd. The sale will meet the conditions for transfer of a going concern treatment. The assets to be sold are used by Rudy in making taxable supplies.

Rudy will incur professional fees including VAT at the standard rate in relation to the sale.

**Explain the VAT treatment of the sale of part of the business and whether Rudy may recover input vat on the professional fees.**

9. Sevolg Ltd is the representative member of a VAT group comprising a large number of companies, including Tleb Ltd and Esit Ltd, both of which are 100% owned by Sevolg Ltd.

Sevolg Ltd will undertake the following transactions in the next few weeks:

- 1) It will sell 60% of its shares in Tleb Ltd.
- 2) It will become a member of a partnership, entitled to 75% of the partnership's income and capital.
- 3) It will acquire a 100% interest in Rups Inc, a company operating wholly in America.

In addition, the trade and assets of Esit Ltd will be sold and Esit Ltd will become dormant.

**Explain the implications of the above transactions for the group registration.**

10. Ladnas Ltd's VAT return for the quarter ended 30 September 2022 showed outputs of £900,000 and VAT payable to HMRC of £124,200.

The return included two errors: the first error had the effect of understating output VAT by £8,000, and the second of understating input VAT by £500.

**Explain, with calculations, the options available to Ladnas Ltd for correcting the errors.**

11. On 1 November 2022, Cherise transferred shares in Toac Ltd to Kate.

The shares had been valued at £180,000. Due to financial difficulties, Cherise accepted cash of £142,500 from Kate and Kate agreed to release Cherise from a debt of £10,000.

**Calculate the Stamp Duty payable on the sale of the shares and state who is responsible for paying it.**

12. On 28 October 2022, Triks Ltd entered into a contract to buy a new commercial building for £220,000 plus VAT of £44,000. The contract was completed on 4 November 2022, with Triks Ltd occupying the property from that date.

**Calculate the Stamp Duty Land Tax payable by Triks Ltd and state the due date for payment.**

## Module B: Inheritance Tax, Trusts & Estates

If you have entered for Module B you must answer Questions 13 – 24 and type your answers between the question dividers 13 – 24.

13. Joan, who had never married, made two cash gifts during her lifetime:

10 April 2014      £50,000 to her son  
5 August 2019      £10,000 to her niece

Joan died on 18 August 2022, leaving an estate with a total value of £782,000, including her main residence which was valued at £210,000.

Joan's Will left a bequest to charity. The amount of the bequest was not stated but Joan stipulated that she wished to leave an amount sufficient to enable her chargeable estate to qualify for the reduced rate of Inheritance Tax. The residue of the estate was left to her son.

**Calculate the minimum amount that must be left to charity in order for Joan's estate to qualify for the reduced rate of Inheritance Tax.**

14. On 10 September 2022, Betty made lifetime gifts of shares to each of her two nieces as follows:

- 1) 1,000 shares in Xert plc, an investment company. The shares were valued at 310-316p with recorded bargains of 311p, 314p and 318p.
- 2) 500 shares in Yake Ltd. Before the gift, Betty owned 5,000 shares out of the total share capital of 10,000 shares in the company, and her husband owned 3,000 shares.

The value of shares at 10 September 2022 was as follows:

<u>% shareholding</u>	<u>Value £</u>
5%	4,000
50%	60,000
75%	122,000
80%	130,000

**Calculate the value of each of the gifts for Inheritance Tax purposes before taking into account any exemptions or reliefs.**

15. On 1 April 2017, Bill, who had made no previous lifetime transfers, transferred £480,000 into a newly-created discretionary trust for the benefit of his grandchildren. Bill agreed to pay the tax due.

On 1 July 2022, the trustees made a capital distribution of £100,000 to one of the beneficiaries, who agreed to pay the tax due.

**Calculate the exit charge arising on the July 2022 distribution.**

16. Lee died on 20 September 2022. A summary of his death estate is as follows:

	£
Total assets, net of liabilities	540,000
Business property relief claimed	<u>(144,000)</u>
	<u>£396,000</u>

Lee's Will states that £5,000 is to be given to charity, with the property qualifying for business property relief and the remainder of the estate to be left to his two children equally.

The executors have calculated that the Inheritance Tax payable as a result of Lee's death is £14,000 on a lifetime gift made to his brother, and £92,400 on the death estate.

**Calculate the amount which will be received by each of Lee's children on his death.**

17. Roy died on 22 March 2022. His death estate was as follows:

	£
Family home	1,800,000
Mortgage	(250,000)
Cash and bank balances	635,000
Personal effects and chattels	88,000
Funeral expenses	<u>(5,800)</u>
	2,267,200
Charitable legacy	<u>(10,000)</u>
Chargeable estate	<u><u>£2,257,200</u></u>

Roy left his estate to his son.

**Explain how the amount of any Residence Nil Rate Band available on Roy's death would be determined.**

18. On 1 July 2018, Trudi made gifts to each of her children as follows:

To her son

A sole trade business which Trudi had operated since 10 January 2017.

Her son left his employment on 15 June 2018 to take over running the business and has continued to do so ever since. The business was previously owned by Trudi's husband for many years before being left to Trudi on his death on 10 January 2017.

To her daughter

A 20% shareholding in Plin Ltd, a trading company.

Trudi's daughter sold the shares on 20 June 2019 and reinvested the proceeds in the purchase of a 2% shareholding in Raro plc, a trading company, on 10 August 2019.

Trudi died on 21 October 2022.

**Explain whether Business Property Relief will be available on Trudi's death on each of the two lifetime gifts.**

19. On 1 November 2021, Jacob gave a holiday cottage in Devon to his son, Adam.

Since then, Adam has been regularly letting the cottage to holidaymakers but keeps one week per month available for family members to use.

Jacob uses the cottage every three months for one week. Each time, instead of paying for its use, Jacob spends some time maintaining the large gardens.

**Explain the Inheritance Tax treatment of the gift of the holiday cottage.**

20. Jean died on 14 May 2022. Her estate was valued at £1.4 million which included a house valued at £400,000 and shares in an unquoted trading company valued at £250,000. The shares qualified for business property relief at 100%.

The Inheritance Tax payable on the death estate was £240,000.

**State the amounts and due dates for paying the Inheritance Tax, assuming the executors wish to make a claim to pay by instalments where possible.**

21. For 2021/22, the income of the Genteel Interest in Possession Trust was as follows:

	£
Rental income	42,000
Interest income	8,000
Dividend income	5,000

The trustees had letting expenses of £10,000 and charged management expenses of £4,000 which amounts were paid out of trust income.

**Calculate the Income Tax payable by the trust for 2021/22.**

22. On 6 April 2019, Jack created the 2X2 Discretionary Trust. Jack had previously created six other discretionary trusts.

During 2021/22, the trustees realised the following gains and losses:

		<u>Gain/(Loss)</u>
		£
10 April 2021	Sale of chattels (each item < £6,000)	14,400
2 October 2021	Sale of residential property	28,600
6 January 2022	Sale of quoted shareholdings	(4,450)

Capital Gains Tax of £7,664 was paid during the year on the sale of the residential property.

**Calculate the Capital Gains Tax payable by the trustees on 31 January 2023.**

23. Margaret died on 19 July 2020. The Inheritance Tax liability due on her death estate was £1,100. The executors failed to deliver the return by the due date of 31 July 2021.

**Explain the maximum penalties that may apply to the late filing of the Inheritance Tax return.**

24. Casey was born in 1976 in the UK, to UK domiciled parents.

He moved to Germany in 2000 but returned to the UK in 2002. He remained in the UK thereafter until 2014, when he moved permanently to Germany. Casey changed his domicile to Germany in January 2015.

In March 2020, Casey's mother became unwell and in April 2020, Casey returned to the UK to look after her. He remained in the UK until his mother's death in July 2022 before returning to Germany permanently.

**Explain Casey's domicile status in 2021/22.**

## Module C: Corporation Tax

If you have entered for Module C you must answer Questions 25 – 36 and type your answers between the question dividers 25 – 36.

25. Givens Ltd was incorporated on 18 December 2019 and started to trade on 1 January 2020. The company did not notify HMRC that it had started to trade and therefore did not receive a notice to file a Company Tax return for the year ended 31 December 2020.

On 8 April 2022 the company notified HMRC of its chargeability to Corporation Tax, filed a return and paid the Corporation Tax liability of £175,750 for the year ended 31 December 2020.

- 1) State the date by which Givens Ltd should have notified HMRC of its chargeability to Corporation Tax.
- 2) Calculate the maximum and minimum penalties that may apply on the assumption that the failure to notify chargeability was deliberate but not concealed.
- 3) Explain the penalties to which Givens Ltd may be liable for the late filing and payment for the year ended 31 December 2020.

26. Boyd Ltd's 18-month period of account ended 31 March 2022 showed a tax adjusted trading profit before capital allowances of £540,000.

The tax written down value of the main pool at 1 October 2020 was £85,000. There were no additions or disposals of plant and machinery during the period.

On 1 April 2021, the company let out an unused warehouse to a tenant for an annual rent of £36,000, payable quarterly in advance.

Boyd Ltd paid qualifying charitable donations of £10,000 annually on 1 June.

**Calculate Boyd Ltd's taxable total profits for the period ended 31 March 2022.**

27. Crowder Ltd had a trading profit for the year ended 31 December 2021 of £1.4 million after accounting for the following items:

- 1) £5,000 interest payable and a £25,000 early redemption penalty on loan stock. The loan stock had been issued by Crowder Ltd in 2008 to raise funds to buy a 45% shareholding in Semina SL, a trading company resident in Spain.
- 2) A £60,000 restrictive covenant paid to the managing director on 1 August 2020 when he left his employment with Crowder Ltd.
- 3) A dividend of £12,000 received from Semina SL.

**Explain how the three items will be treated for Corporation Tax purposes for Crowder Ltd for the year ended 31 December 2021.**

28. Wynn Ltd had the following recent and forecast results:

	<u>Year ended</u> <u>30 November</u> <u>2019</u>	<u>10-month</u> <u>period ended</u> <u>30 September</u> <u>2020</u>	<u>Year ended</u> <u>30 September</u> <u>2021</u>	<u>Year ended</u> <u>30 September</u> <u>2022</u> <u>(forecast)</u>
	£	£	£	£
Trading profit/(loss)	350,000	295,000	(440,000)	120,000
Property income/(loss)	(15,000)	18,750	25,000	25,000
Capital gain/(loss)	(89,000)	Nil	Nil	92,000

**Calculate the taxable total profits for each chargeable accounting period, assuming the company claims loss relief as early as possible, clearly showing the treatment of the losses.**



29. On 1 November 2019, Quaerles Ltd purchased a newly-built warehouse from a builder for £750,000, including £250,000 for the land.

The warehouse was brought into use by Quaerles Ltd on 1 January 2020.

On 1 April 2022, Quaerles Ltd sold the warehouse for £900,000, including £300,000 for the land.

Quaerles Ltd has a year end of 31 March.

**Calculate:**

- 1) **Quaerles Ltd's structures and buildings allowances for all relevant periods.**
- 2) **The chargeable gain on the disposal of the warehouse on 1 April 2022.**

30. Oswalt Ltd is a trading company which prepares accounts to 31 December. On 1 November 2016 Oswalt Ltd purchased a copyright for £180,000.

The copyright was amortised in the company's accounts on a straight line basis over 50 years.

On 1 March 2022, the copyright was sold for £200,000.

On 1 May 2022, the company bought a patent for use in the trade for £195,000.

The company makes all beneficial elections.

**Calculate:**

- 1) **The taxable income gain on the sale of the copyright on 1 March 2022.**
- 2) **The cost for tax purposes of the patent.**

31. In the year ended 31 March 2022, Winona Ltd, a large pharmaceutical company, incurred the following expenditure on research and development:

	£
Staff costs of employees directly engaged in research and development	750,000
Consumables	450,000
Rent of laboratory premises	48,000
New computer hardware	500,000
New computer software	250,000
Payments to clinical trial volunteers	350,000
	<u>£2,348,000</u>

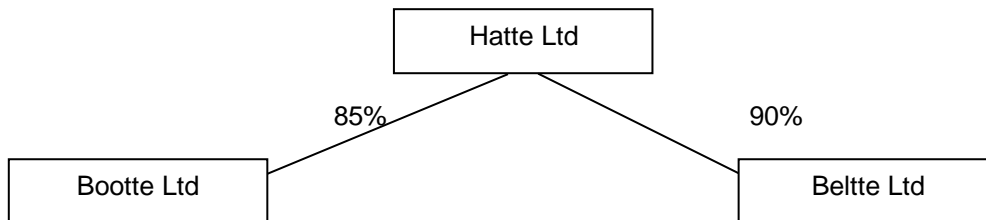
**Explain, with calculations, how Winona plc's expenditure on research and development will be treated for Corporation Tax purposes on the assumption that the company claims the Research and Development Expenditure Credit.**

32. Olyphant Ltd, a trading company, has the following income and expenditure for the year ended 31 January 2022:

	£
Tax adjusted trading income	55,000
Overseas interest income (net of 14% overseas tax)	43,000
Overseas property business income (net of 27% overseas tax)	87,600
UK property business loss	(60,000)

**Calculate the Corporation Tax payable for the year ended 31 January 2022, clearly showing the treatment of the UK property business loss.**

33. At 1 April 2021, the Hatte Ltd group structure was as follows:



The companies' results for the year ended 31 March 2022 were as follows:

	<u>Hatte Ltd</u>	<u>Bootte Ltd</u>	<u>Beltte Ltd</u>
	£	£	£
Trading profit/(loss)	528,000	7,000	(120,000)
Chargeable gain/(loss)	122,000	(94,000)	62,000
Qualifying charitable donations	8,000	7,000	2,000

Hatte Ltd's chargeable gain of £122,000 arose on the sale of its shareholding in Beltte Ltd to an unconnected company on 31 August 2021. The disposal did not qualify for the Substantial Shareholding Exemption.

Beltte Ltd's chargeable gain of £62,000 arose on a disposal made on 15 December 2021.

Beltte Ltd has no previous profits against which the trading loss of £120,000 could be offset.

**Calculate the taxable total profits of all companies for the year ended 31 March 2022 on the assumption that any losses are relieved as early as possible and all beneficial claims are made.**

34. Raiyland Ltd is a property development company. It has owned 100% of Hawwkins Ltd, a manufacturing company, for many years.

On 1 January 2022, Hawwkins Ltd transferred its office building to Raiyland Ltd. The property was originally purchased in August 2009 for £675,000 and had a market value of £995,000 on 1 January 2022. Raiyland Ltd intends to develop the building and then sell it to a third party.

**Explain, with calculations, the Corporation Tax treatment of the transfer of the building from Hawwkins Ltd to Raiyland Ltd and any elections that may be available.**

35. On 30 September 2021, Ellenmay Ltd sold a warehouse for £900,000, resulting in a chargeable gain of £135,000. One third of the warehouse had always been rented out to an unconnected company.

On 17 October 2021, the company took out a 99-year lease on a factory to be used in its trade, paying a premium of £400,000.

On 1 November 2021, the company installed fixed plant and machinery in its factory, costing £200,000, which is expected to be scrapped on 31 August 2029.

The company wishes to claim the maximum possible rollover relief.

- 1) **Calculate the chargeable gain after rollover relief on the disposal of the warehouse.**
- 2) **Explain, with calculations, the effect of a rollover relief claim on the leasehold factory and the fixed plant and machinery.**

36. Maggs plc is a very large company for the purposes of payment of Corporation Tax by instalments. The Corporation Tax liability for the eight-month period ended 31 March 2022 was £2.85 million.

**State the amounts and due dates for payment of the Corporation Tax liability for the period ended 31 March 2022.**

## Module D: Taxation of Individuals

If you have entered for Module D you must answer Questions 37 – 48 and type your answers between the question dividers 37 – 48.

37. For 2021/22, Michael had the following income:

	£
State pension	9,339
Pension from previous employer	18,000
Winter fuel allowance	200
Child benefit	1,828
Interest income	1,200
Dividends from shares held within an ISA	3,300

**Calculate Michael's taxable income for 2021/22, clearly showing your treatment of each item.**

38. On 1 July 2021, Dexter inherited a portfolio of seven buy-to-let residential properties. From 1 July 2021 to 5 April 2022 his rental income from the properties was £160,000 and he incurred the following expenditure:

- 1) £7,000 for buildings insurance for all seven properties. The annual policies started on 1 July 2021.
- 2) £1,200 on the replacement of a broken single-glazed window with a new double-glazed unit. A replacement single-glazed unit would have cost £500.
- 3) £5,600 on the installation of central heating in one of the properties.

From 1 July 2021 to 5 April 2022, Dexter drove 5,400 miles in his car and incurred parking charges of £95 and tolls of £77 in relation to his rental business. He claimed flat rate expenses in respect of the car.

**Calculate Dexter's property income for 2021/22, clearly showing your treatment of each item.**

39. On 1 December 2021, Debra was made redundant by MMPD Ltd after being employed for many years. Her redundancy package was as follows:

	£
Statutory redundancy pay	8,000
Ex-gratia payment	20,000

Debra was also provided with outplacement counselling worth £850 and retained the use of her company car up to 31 March 2022. The annual taxable benefit for the car was £12,210.

**Calculate the taxable amount of Debra's redundancy package, clearly showing your treatment of each item.**

40. Sylvia lets out two furnished holiday cottages in the UK, Holly House and Primrose Place.

During 2021/22, Holly House was available for letting all year and was let for 17 weeks. Primrose Place was available for letting for 42 weeks and was let for 24 weeks.

All lets were for one-week periods to holidaymakers, except for a period of 10 consecutive weeks when Primrose Place was let to Sylvia's friend, Miguel.

**Explain whether the cottages meet the letting conditions in 2021/22 in order to qualify as Furnished Holiday Lettings.**

41. Batista started employment with Laguerta Ltd on 1 November 2020. Since that date he has been provided with an electric car (zero CO<sub>2</sub> emissions), the details of which are as follows:

	£
List price	48,000
Discounted price paid by Laguerta Ltd	45,000
Capital contribution by Batista	8,000
Accessories added at time of purchase:	
- Alloy wheels	800
- Floor mats	95
Accessories added after purchase:	
- Mobile phone holder	80

**Calculate Batista's benefit in kind in respect of the car for 2021/22.**

42. On 20 February 2015, Masouka Ltd granted options over 50,000 shares under an Enterprise Management Incentive scheme to Vince, a full-time employee.

On 1 March 2022, Vince exercised the options and on 30 March 2022 he sold the shares for £1.2 million.

The relevant values of one Masouka Ltd share were as follows:

	£
Market value on 20 February 2015	3.80
Exercise price	3.50
Market value at 1 March 2022	21.00

**Explain, with supporting calculations, the tax consequences for Vince on the grant and exercise of the options and on the sale of the shares.**

43. Anushri is 28 years old. During 2021/22, she was employed by Babooshika Ltd on an annual salary of £36,000.

On 22 December 2021, Babooshika Ltd gave every employee £1,000 in shopping vouchers and on 17 January 2022 it held a party for all its employees at a cost of £180 per head. The party was subject to a PAYE Settlement Agreement.

**Calculate the National Insurance Contributions payable by Anushri and Babooshika Ltd for 2021/22.**

44. On 2 January 2021, Dhoakes Ltd, an unquoted trading company, had an issued share capital of 100,000 shares. James has worked for and owned 5,000 shares (a 5% holding) in the company since 3 January 2012. The shares cost £50,000.

On 3 January 2021, Dhoakes Ltd issued a further 20,000 shares to outside investors when the shares were valued at £17 each.

On 14 March 2022, James sold his shares in Dhoakes Ltd for £95,000.

**Explain, with supporting calculations, the elections available to James in order to minimise the Capital Gains Tax payable on the disposal of his shares in Dhoakes Ltd.**

45. On 24 June 2011, Joey bought a sculpture for £120,000. On 15 July 2020, the sculpture was damaged and on 30 July 2020, Joey received insurance proceeds of £15,000. The unrestored value of the sculpture was £135,000.

In August 2020, Joey spent £10,000 restoring the sculpture.

On 17 December 2021, Joey sold the sculpture at auction for £200,000 before auctioneers' fees of 7%.

**Calculate the chargeable gains arising in 2020/21 and 2021/22.**

46. Quinn has never been UK resident. On 6 April 2008 he inherited a house in England when it was valued at £350,000. The house was let to tenants from that date until 5 April 2022, when Quinn sold the house for £875,000. Its value at 5 April 2015 was £600,000.

**Explain, with supporting calculations, the three ways in which the chargeable gain on the house could be calculated and advise Quinn of any elections he should make if he wishes to minimise the Capital Gains Tax payable.**

47. During 2021/22, Aadil, who is UK resident and domiciled, made the following UK chargeable gains and allowable losses:

	<u>Gain/(Loss)</u>
	£
Painting	(8,000)
Shares in Raaye Ltd, an investment company	32,000

In addition, Aadil sold his 2% shareholding in Moostafa & Co, a company resident in Pakistan, realising a gain of £18,000. Pakistani tax of £3,450 was paid on this gain.

Aadil has taxable income in excess of £200,000 in 2021/22.

**Calculate Aadil's UK Capital Gains Tax liability for 2021/22.**

48. On 17 November 2018, Bukayo subscribed for £40,000 of newly issued shares in Sacka Ltd, a qualifying Seed Enterprise Investment Scheme company, and claimed Income Tax relief of £20,000 in 2018/19.

On 1 July 2021, Bukayo sold his shares in Sacka Ltd for £16,000, incurring selling costs of £200.

**Calculate:**

- 1) **The Income Tax relief withdrawn on the disposal of the shares and state the tax year in which it will be charged to tax.**
- 2) **The capital loss on the disposal of the shares.**

## Module E: Taxation of Unincorporated Businesses

If you have entered for Module E you must answer Questions 49 – 60 and type your answers between the question dividers 49 – 60.

49. Steve ceased trading on 30 June 2021. The taxable trading profits for his final two periods were as follows:

	£
Year to 31 December 2020	24,800
Period to 30 June 2021	10,900

Steve had overlap profits brought forward of £540.

**Calculate the total National Insurance Contributions payable by Steve for 2021/22.**

50. Adam uses the cash basis of accounting for trading profits. His income and expenses for the year ended 5 April 2022 are as follows:

		£
Sales invoiced in the year	10% of these were unpaid on 5 April 2022	58,400
Business insurance for year to 30 April 2022	Paid 1 May 2021	980
Machinery for use in the business	Invoice received and paid June 2021	10,600
Business loan interest paid in year		880

Adam wishes to use the simplified method to claim for the cost of travelling 1,440 business miles.

**Calculate Adam's taxable trading profit for the year to 5 April 2022, showing your treatment of each item.**

51. Zoe started to trade on 1 September 2021. Her first accounting period ran to 31 March 2022 and resulted in a trading loss but Zoe expects to make a small profit in the year ending 31 March 2023.

Prior to starting the business, Zoe was employed for many years, earning in excess of £50,000 per annum.

**Identify the ways in which the trade loss could be relieved by Zoe and give one advantage of making a claim now rather than in the future.**

52. Phil, Ray and Susan had been in partnership for many years before Ray retired on 28 February 2022.

The partnership's trading profits for the year ended 31 March 2022 were £114,000.

The partnership agreement states the following allocation of profits:

	<u>Phil</u>	<u>Ray</u>	<u>Susan</u>
<u>To 28.2.22</u>			
Annual salary	£4,200	£6,000	£7,800
Residual profit split	40%	40%	20%
<u>From 1.3.22</u>			
Profit split	50%		50%

Overlap profits are £1,200 for Phil, £1,500 for Ray and £1,200 for Susan.

**Calculate the assessable trading profit for 2021/22 for each partner.**

53. Following submission of Katie's Tax Returns, the following liabilities were calculated:

	<u>2021/22</u>	<u>2020/21</u>
	£	£
Income Tax	8,600	7,250
Class 4 National Insurance Contributions	1,440	1,230
Class 2 National Insurance Contributions	159	156
Capital Gains Tax liability (sale of business premises)	4,180	-

**Explain the amounts payable for 2021/22 on each of 31 July 2022 and 31 January 2023.**

54. Roy prepares accounts to 31 March each year.

At 1 April 2021 the tax written down value of the main pool was £21,400 and of the special rate pool was £11,300.

During the year to 31 March 2022, Roy sold a high emissions car for £4,000 and purchased a new electric car for £21,000. He also purchased some machinery for £140,000 in October 2021. All cars are used 100% for business purposes.

**Calculate the maximum capital allowances available for the year ended 31 March 2022.**

55. Nadya has a small business providing gardening services to local householders.

On 1 June 2022, she started to work casual hours for Grow4, a local fruit growing business. When extra help is needed, Nadya is offered work at the premises of Grow4 and uses her own hand tools such as a spade, fork and trowel. Nadya has proved particularly useful to Grow4, and has been regularly working two days each week. She began training some apprentices taken on by Grow4 in September and regularly reports back to the managers on the apprentices' progress.

**Explain whether Nadya will be treated as an employee of Grow4 for tax purposes.**

56. On 10 January 2022, Petra sold her business, which she had run as a sole trader for 20 years, to her son Stuart for £140,000.

The market value and original cost of the assets sold was as follows:

	<u>Market Value 10/1/2022</u>	<u>Original cost</u>
	£	£
Goodwill	38,000	nil
Premises	160,000	125,000

Petra also made a small gain of £4,000 on the sale of a painting during 2021/22 and is a higher rate taxpayer.

**Calculate Petra's Capital Gains Tax liability assuming all available claims are made.**

57. Josef purchased the 30-year lease of a factory on 1 March 2022 for £230,000.

Josef sold a freehold warehouse on 10 May 2022 for £280,000 which he had originally purchased 10 years ago for £110,000.

**Calculate Josef's chargeable gain on the disposal of the warehouse after all available reliefs and explain when any deferred gain will become chargeable in the future.**

58. Sue calculated her trading profit for the year ended 5 April 2022 to be £35,841 after deducting the following items:

- 1) £1,957 paid for medical insurance for herself and her employee, Rob. The policy covers close family members as well as the named member of the plan.
- 2) £4,550 paid to lease a car for Rob under an operating lease. The car is used to visit customers and suppliers but Rob also has personal use of the car. The CO<sub>2</sub> emissions are 128g/km.
- 3) £2,140 wages due to Rob for the month of March 2022, which were not actually paid to him until 15 April 2022.
- 4) £3,570 loss on the sale of printing equipment which was sold as scrap during the year for £100.

**Explain the treatment of these items in calculating Sue's taxable trade profit for 2021/22.**

59. Archie joined the DD partnership on 1 October 2021, introducing cash of £50,000 which was credited to his capital account.

Billy, who has been a partner in the partnership for many years, personally owned the freehold premises from which the business trades. The property originally cost Billy £180,000.

As part of the partnership changes, Billy transferred the property into the DD partnership on 1 November 2021. The market value of £400,000 was credited to his capital account.

After Archie joined the partnership, income and capital profits were allocated 25% to each of the four partners.

**Explain the Capital Gains Tax consequences of the cash and property introduced to the partnership.**

60. Chloe ceased trading on 31 July 2021.

Her taxable trade profit/(loss) for her last two periods were:

	£
Period ended 31 July 2021	(18,000)
Year ended 31 October 2020	22,000

Chloe had overlap profits brought forward from the commencement of trade of £1,800.

**Calculate Chloe's terminal loss and explain how this can be relieved.**