

The Chartered Institute of Taxation

Advanced Technical

Taxation of Owner-Managed Businesses

November 2024

Suggested answers

ANSWER 1

1) Tax adjusted loss and allocation

Adjustment to loss

		£	£
Loss for the year			(189,600)
Rent provision	(b)		(39,000)
Lease premium	(c) 900 – 738		162
Car leasing	(e) 17,000 x 15%		2,550
Private car expenses	(e) (17,000 x 85% + 6,500) x 40%		8,380
Legal fees re new lease	(g)		5,400
Depreciation	(h) 19,700 – 4,600		15,100
Capital allowances:			
AIA		23,320	
WDA	18% x 6,800	<u>1,224</u>	(24,544)
Tax adjusted loss			<u>£(221,552)</u>

- (a) The redundancy payments are fully deductible as the business is continuing.
 (b) A provision can be made under FRS102 for the future net rental cost of the old offices of 6 years at £6,500 per annum. This is line with the decision in *Herbert Smith v Honour [1999] 72TC130*.
 (c) A proportion of the rent premium for the new offices is deductible:

		£
Premium		18,000
Capital	2% (10 – 1) x 18,000	<u>(3,240)</u>
Income		<u>14,760</u>
Allowable	14,760/10 x 6/12	<u>(738)</u>

- (d) The repairs on the new offices are allowed as initial repairs of the property under *Odeon Associated Theatres Ltd v Jones [1971] 48TC257*.
 (e) 15% of the leasing payments for high emission cars are disallowed as are the private costs for the partners.
 (f) Reimbursed parking fines for employees are allowed as they are taxable for the employee.
 (g) The legal fees for the new lease are capital and so disallowable.
 (h) Depreciation of assets on finance leases is allowable as the revenue element of the hire agreement.

Loss allocation

		Total £	Akshar £	Ben £	Cora £
<u>To 31 December 2023</u>	9/12 x (221,552)	(166,164)			
Interest	4% x 160,000 x 9/12	<u>(4,800)</u>	4,800		
Balance 80:20		<u>(170,964)</u>	(136,771)	(34,193)	
<u>To 31 March 2024</u>	3/12 x (221,552)	(55,388)			
Salary	45,000 x 3/12	<u>(11,250)</u>			11,250
Balance	50:40:10	<u>(66,638)</u>	(33,319)	(26,655)	(6,664)
			(165,290)	(60,848)	4,586
Reallocate notional profit	165,290:60,848		3,352	1,234	(4,586)
Loss for the year			<u>(161,938)</u>	<u>(59,614)</u>	-

2) Loss relief

The losses incurred by Akshar and Ben can be carried forward and set against the future profits of the partnership. This will be automatic if there are no other claims (s.83 ITA 2007). The relief is automatic, but the amount of loss carried forward would need to be established and the time limit for this is 5 April 2028.

Akshar can set his share of the loss against his rental income for 2023/24 and/or his rental income and trading profits for 2022/23 (s64 ITA 2007). The claims are independent and can be made in any order. Making a claim against his income for 2023/24 would mean that his personal allowances would be wasted. It may be beneficial to set the loss against 2022/23, as Akshar's trading profits and rental income mean he may have been liable to tax at the additional or higher rate. If a claim is made for 2023/24, then the balance of the loss can be set against the capital gain made (s71 ITA 2007). As this was a residential property, the tax saving would be 28%. Both claims would need to be made by 31 January 2026.

Ben has no other income to make a claim against in 2023/24. He will be able to make a claim against his share of trading profits for 2022/23. Ben started trading on 6 April 2022. 2023/24 is therefore his second year of trading. As this is within the first four tax years of trading, he can claim to carry back his share of losses against his income for 2022/23, 2021/22 and 2020/21 (s72 ITA 2007). The loss, subject to restriction, would be set 2020/21 first. The claim must be made by 31 January 2026.

MARKING GUIDE

TOPIC	MARKS
Part 1 - Tax adjusted loss and allocation	
Allow redundancy payments	0.5
Provision for future rentals	1
Adjustment for rent premium	2
Repairs allowed	0.5
Disallowance for high emission cars and private use	1
Allow parking fines	0.5
Disallow legal fees	0.5
Capital allowances	1
Depreciation	1
Split loss into periods	0.5
Calculate interest and salary and add to loss for period	1.5
Allocate balance for each period	1
Reallocation of loss on correct basis	1
SUB TOTAL	12
Part 2 – Loss reliefs	
Carry forward of losses – both partners	0.5
Date for claim of amount to carry forward	0.5
Current year and prior year loss claims - Akshar	1
Effect on personal allowances	0.5
Extension to capital gain for 2023/24	1
Application of restriction	1
Recommendation for Akshar	0.5
Due date for claims	0.5
Application of s64 to Ben	0.5
Identification of s72 relief	0.5
Correct year for carry back	1
Due date for claim	0.5
SUB TOTAL	8
TOTAL	20

ANSWER 2

1) CGT payable

The winding up of the company on 31 March 2025 will be a disposal event for Virginia.

The proceeds arising is the distribution of the reserves of £300,000. As the shares have a base cost of £1, the capital gain will be £299,999.

Although the company will have ceased trading when the trade and assets are sold to FantasyFit Ltd, business asset disposal relief continues to be available (if the conditions are met), as the shares are disposed of within three years of the trade ceasing.

The conditions which must be met are that, throughout the period of two years ending with the date on which the company ceases trading:

- The company is the individual's personal company and is either a trading company or the holding company of a trading group, and
- The individual is an officer or employee of the company or (if the company is a member of a trading group) of one or more companies which are members of the trading group.

Virginia holds at least 5% of the shares, so it is her personal company, and she has been a director since 2018, so meets those elements of the above conditions.

The company traded as a vintage fashion retailer, so should be treated as being a trading company. The large cash balance should not be a concern, provided it is not actively invested such that it would constitute a non-trading activity.

As such, BADR should be available and Virginia's CGT liability should be:

Proceeds	300,000
Cost	<u>(1)</u>
Gain	299,999
Annual exemption	<u>(3,000)</u>
Taxable gain	<u>296,999</u>
CGT at 10%	<u>£29,699</u>

2) Possible consequences of involvement with FantasyFit

The targeted anti-avoidance rule (TAAR) which applies to distributions from companies on a winding up may apply to Virginia and Magic Threads Ltd.

There are various conditions which must be met for this to be the case:

Condition A: Virginia must have held at least 5% of the ordinary share capital and voting rights before the winding up – this is met as she is the only shareholder

Condition B: The company is a close company when it is wound up – this is met as there is only one participator

Condition C: At any time in the two years following the winding up, Virginia is “involved” in carrying on a trade or activity that is similar to the trade or activity carried on by Magic Threads Ltd. There is no requirement that this be through a newly created company. As the previous trade of Magic Threads Ltd has been sold to FantasyFit Ltd, who also carry on the trade of clothing retailers, it is clear that the trade of FantasyFit Ltd is at least similar to the trade of Magic Threads Ltd.

Regardless of whether or not she is involved with FantasyFit Ltd as an employee or shareholder, the fact that her sister holds at least 5% of the shares of FantasyFit Ltd and is “connected” to her means that Condition C will be met.

Condition D: It is reasonable to assume that one of the main purposes of the winding up is to reduce Virginia’s income tax liability. There does not appear to be any commercial reason why the business of Magic Threads Ltd should be sold to FantasyFit, which is a company controlled by a close relative, and the company wound up. If Virginia only works for FantasyFit as an employee, and has no say in the decision making and has no profit entitlement, there may be a defensible position. If she becomes a shareholder of the company, this is much less defensible. Given the company’s reserves could have been extracted as a dividend, there is a substantial tax benefit to be obtained by winding up the company.

2024/25 income tax liability

	No distribution	Distribution
Dividends	100,000	400,000
Personal allowance	(12,570)	
Taxable income	87,430	400,000
Income tax:		
£500 @ 0%	-	-
£37,200 @ 8.75%	3,255	3,255
£49,730 @ 33.75%	16,783	
£87,440 @ 33.75%		29,511
£274,860 @ 39.35%		108,157
Total income tax	20,038	140,923

The total tax liability if it is not a distribution is £49,737 (£20,038 + £29,699). If it is a distribution, it is £140,923 – an increase of £91,186.

MARKING GUIDE

TOPIC	MARKS
Part 1 – CGT implications	5
Disposal is winding up	0.5
Proceeds is distribution	0.5
BADR available after cessation	0.5
Analysis of conditions	2
Cash balance	0.5
CGT calculation	1
Part 2 – Potential distribution	10
Distribution TAAR	0.5
Condition A	0.5
Condition B	0.5
Condition C	1.5
Condition D	2.5
Dividend income	0.5
Personal allowance	0.5
0% rate	0.5
Tax liability	2
Total liability and increase	1
TOTAL	15

ANSWER 3

1) Benefits package

The flexible benefits package offered by Tson Ltd is a salary sacrifice arrangement and the optional remuneration arrangement legislation will apply.

Olena Howe

Contributions to a registered pension scheme are specifically excluded from the optional remuneration rules.

Tson Ltd will simply replace the deductible salary of £5,000 with a deductible pension contribution, so will incur no additional direct costs.

However, Tson Ltd will have a saving as employers class 1 secondary NI will not be due on the pension. As the NI would have been deductible for Corporation Tax, the saving will be £518 (5,000 x 13.8% x 75%).

Devon Forbes

The optional remuneration legislation applies, so for Class 1A purposes Devon is treated as receiving a taxable benefit amount of the higher of the cash amount of salary sacrificed and the taxable amount of the benefit calculated using the benefit rules.

Looking at each benefit in turn:

Car benefit

The taxable benefit is $25\% \times £25,600 = £6,400$. The cash foregone by Devon is £7,000. Class 1A NIC will therefore apply to the higher value of £7,000.

Fuel benefit

The taxable benefit is $25\% \times £27,800 = £6,950$. As this exceeds the £1,000 of salary sacrificed, Class 1A NICs will be calculated on £6,950.

Parking space

The provision of a parking space at or near work is an exempt benefit, so the taxable benefit is £0. Class 1A NICs will therefore arise on the £500 of salary sacrificed.

Class 1A NICs will, therefore, be charged on the following benefits:

Benefit	£
Company car	7,000
Private fuel	6,950
Parking space	500
	<hr/>
	14,450
	<hr/>

The overall effect for Tson Ltd of the salary sacrifice arrangement with Devon will be:

	£
Cost of providing benefits (6,200+1,300+600)	8,100
Class 1A NICs (14,450 x 13.8%)	<u>1,994</u>
Additional costs incurred	10,094
Less;	
Salary saved	(8,500)
Class 1 secondary saved on salary (8,500 x 13.8)	<u>(1,173)</u>
Net additional costs incurred	421
Less CT saved (421 x 25%)	(105)
After tax net cost	<u><u>£316</u></u>

Tson Ltd will have an overall increase in costs of £316 because of providing the flexible benefits package to Devon.

2) Directors loan implications

Tson Ltd is a close company as Mia and Aida each own 50% of the shares.

As a result, the loan to Mia will fall within the loan to participators rules and a tax charge will need to be considered (s.455 CTA 2010).

The loan to Mia on 6 September 2022 was in the accounting period ended 31 March 2023. The loan outstanding on 31 March 2023 was £44,000. However, this was repaid prior to the Corporation Tax due date for Tson of 1 January 2024.

The loan was repaid in full on 6 August 2023. However, a subsequent loan of £30,000 was taken on 6 September 2023. If a loan repayment of greater than £5,000 is made and a subsequent loan of more than £5,000 is taken within a 30-day period of the repayment, s.464C(1) CTA 2010 applies. However, in this case, as the subsequent loan was made more than 30 days after the repayment of the previous loan, these rules do not apply.

This means that the £44,000 repayment is treated as relating to the original loan made on 6 September 2022. Hence, no s455 tax will arise on the original £44,000 loan.

Nor would s455 tax arise in respect of the new £30,000 loan (borrowed during the year ended 31 March 2024) as it was repaid within the same year.

No interest was charged on the loan to Mia so a taxable benefit will arise for Mia.

The benefit will be:

2022/23:

7 months x 44,000 x 2% = £513

2023/24

4 months x 44,000 x 2% = £293 and

5 months x 30,000 x 2% = £250

Total £543

MARKING GUIDE

TOPIC	MARKS
Flexible benefits package	
Identification of pension contribution as outside optional remuneration legislation	0.5
Identification of no increase in direct costs to Tson Ltd of pension contribution	0.5
Calculation of net NI saving of pension	1
Optional remuneration rules apply for Devon/higher of cash sacrificed and benefit	1
Calculation of car benefit	1
Calculation of fuel benefit	1
Calculation of parking space benefit	1
Calculation of overall amount chargeable to Class 1A NICs	1
Reduction in Tson Ltd costs from Devon's reduced salary	1
Increase in Tson Ltd costs from Devon's benefits	1
Net after tax cost to Tson Ltd	1
SUB TOTAL	10
Loan to Mia	
Identification of close company	0.5
Identification of s455 tax	0.5
Loan repaid before due date	0.5
New loan not issued within 30 days and impact	1
No s455 tax on new loan and reason why	1
Beneficial loan interest	1.5
SUB TOTAL	5
TOTAL	15

ANSWER 4

Topolino – period ended 30 June 2021

As the tax return for the period ended 30 June 2021 was filed late, HMRC have until the next quarter day following the 12-month anniversary of the filing date, which is 30 April 2024 to open an enquiry. This enquiry has therefore been opened in time.

Antonio - 2020/21 return

As Antonio's return was filed on time, the normal enquiry window for this return closed on 30 January 2023 – 12 months after the filing date.

However, HMRC may issue a discovery assessment when they discover that tax has been underpaid, due to a taxpayer's carelessness or deliberate behaviour or where HMRC could not have been reasonably expected, on the basis of the information made available to them, to be aware of the loss of tax at the time that the enquiry window closed.

Antonio has engaged the services of an accountant and, as goodwill valuation is a technical matter, it is a reasonable course of action to seek professional advice. It is therefore unlikely that HMRC could successfully argue that there has been careless or deliberate behaviour.

In order to defeat the second point above, Antonio would have to demonstrate that sufficient information was disclosed to HMRC about the value of the goodwill to enable an officer to be aware of the facts giving rise to the loss of tax.

The onus is on the taxpayer to draw HMRC's attention to any important or contentious points – it is not sufficient for the taxpayer to allude to the issue. The disclosure must be complete and comprehensive.

Antonio's return merely states that a valuation "has been carried out". He has not provided any further information, nor has he provided HMRC with a copy of the valuation. This is not likely to be regarded by HMRC as being "sufficient" disclosure to protect against a discovery assessment being raised. An inspector is only prevented from making a discovery assessment if he was "reasonably aware" of the insufficiency of the assessment. In other words, he has to be aware of an actual insufficiency, rather than just be aware that there might be a possible insufficiency. In this case he was only in possession of information that the assessment was based on a valuation, not that the valuation was potentially unreliable. As such, it is likely that HMRC's discovery assessment will be upheld as being valid.

The time limit for raising a discovery assessment is four years from the end of the tax year, but this is extended to six years if there is careless conduct. The time limit is met in either case, as the assessment has been raised 3.5 years after the end of the 2020/21 tax year.

If the error is not careless, no penalty would be charged for the return being incorrect.

If the error was found to be careless, as HMRC have prompted the disclosure of the error, through the discovery assessment process, the penalty would range from 15% to 30% of the potential lost revenue of £70,000 i.e. £10,500 to £21,000.

Antonio may be able to ask HMRC to suspend any penalty for two years, if conditions can be agreed, are met and no further penalties are incurred during the suspension period. However, it may prove difficult to agree conditions given that the error arose from a 'one-off' transaction (i.e. the sale of the business).

Topolino – year ended 30 June 2022

As Topolino's original return was filed on time, the enquiry window for the contents of the original return, being the deductibility of the staff bonuses, closed on 31 May 2024 – 12 months after the actual filing date. This element of the enquiry should therefore be challenged on the grounds that it is out of time.

However, as the R&D claim was included in the return by amendment, this particular element can be enquired into on the same basis as the previous Topolino enquiry above. The next quarter date following the 12-month anniversary of the amendment is 30 April 2025. This element of the enquiry has therefore been opened in time.

MARKING GUIDE

TOPIC	MARKS
Topolino – 2021 enquiry	1.5
Antonio:	
Normal enquiry window	1
Discovery generally	1.5
Careless/deliberate	1
Disclosure	1
Analysis of actual disclosure	2
Time limit for discovery	1.5
No penalty if not careless	0.5
Potential careless penalty	1
Penalty suspension	1
Topolino – 2022 enquiry	
Original return	1.5
Amendment	1.5
TOTAL	15

ANSWER 5

1) Taxable total profits and use of losses

Total taxable profits for the period ended 31 July 2024

	£
Trading profit (W1)	-
Net chargeable gains (W4)	99,860
Qualifying charitable donations	<u>(6,000)</u>
Total taxable profits	<u>£93,860</u>

Use of losses

The capital losses of £84,000 arising in the year ended 31 December 2021 can be offset against the chargeable gains of £99,860 (W5) in the period ended 31 July 2024.

As the company has ceased trading, the trading loss of £126,429 cannot be carried forward.

Companies must make a current year loss relief claim against total taxable profits before carrying back any losses. The trading loss of £126,429 can be offset against the total taxable profits before charitable donations (£15,860, above) of the period ended 31 July 2024. In this case, the charitable donations of £6,000 will be unrelieved.

The remaining loss of £110,569 could then be carried back against taxable total profits (before charitable donations) of £24,884 in the year ended 31 December 2023. The charitable donations of £12,000 will be unrelieved.

As the trade has ceased, a terminal loss relief claim allows the loss of the final 12 months of trade to be carried back 36 months from the beginning of the period in which the losses were made. There is only one terminal loss (being the £126,429 arising in the seven-month period ended 31 July 2024). No terminal loss arises in respect of the final five months of the year ended 31 December 2023 as a trading profit has been made in that period.

The losses are offset against total taxable profits in the most recent years first, as explained above.

The remaining loss of £85,685 can be fully utilised against the total taxable profits before charitable donations of £87,900 in the year ended 31 December 2022.

All losses can therefore be utilised and tax already paid in relation to the years ended 31 December 2022 and 2023 would be repaid.

Workings

W1) Trading profit for the period ended 31 July 2024

	£
Profit/(loss) prior to sale of trade and assets	(296,000)
Balancing charge on factory machinery (W2)	52,376
Super-deduction charge on computer equipment (1 x £6,000)	6,000
Profit/(loss) on inventory (£36,000-£44,000)	(8,000)
Profit/(loss) on goodwill (W3)	120,000
SBA on warehouse (£46,000*3%*7/12)	<u>(805)</u>
Trading profit/(loss)	<u>£(126,429)</u>

As the sale is to a third party, no election can be made to transfer inventory at cost or plant and machinery at tax written down value.

W2) Balancing charge on factory machinery

	£
Tax written down value at 1 January 2024	67,624
Disposal proceeds	<u>(120,000)</u>
Balancing allowance/(charge)	<u>£(52,376)</u>

W3) Profit/(loss) on sale of goodwill

	£
Proceeds	120,000
Net book value	-
Profit/(loss) on disposal	<u>£120,000</u>

As the business was incorporated after 2002, the goodwill disposal is taxed as a trading profit. As it is internally generated, no cost or net book value has been recognised in the accounts.

W4) Capital gains/(losses)

	£
Gain on disposal of factory (W5)	86,000
Gain on disposal of warehouse (W7)	<u>13,860</u>
Net gain/(loss)	<u>£99,860</u>

As capital allowances have been claimed on the factory machinery and computer equipment, no capital loss is allowable.

W5) Gain on disposal of factory

	£	£
Proceeds		236,000
Less cost:		
Actual cost	170,000	
Less rollover relief claimed (W6)	<u>(20,000)</u>	<u>(150,000)</u>
Gain		<u>£86,000</u>

W6) Rollover relief

	£
Gain before rollover relief	70,000
Proceeds not reinvested in new factory (£220,000-£170,000)	<u>(50,000)</u>
Rollover relief	<u>£20,000</u>

W7) Gain on disposal of warehouse

	£
Proceeds	105,995
Amounts claimed as structures and buildings allowance (£46,000 x 3% x 51/12)	5,865
Cost	<u>(98,000)</u>
Gain/(loss) on disposal	<u>£13,860</u>

2) Tax implications for Fargum Ltd

Factory

The base cost of the factory will be £236,000, if Fargum Ltd has had no eligible gains on chargeable disposals that they wish to rollover into this base cost.

The factory is not eligible for structures and buildings allowance, due to the original construction taking place prior to 29 October 2018.

Factory machinery and computer equipment

The amount paid of £126,000 will be eligible for the AIA, if this has not been used already by Fargum Ltd. Otherwise, writing down allowances at 18% will be available on the acquisition cost. Full expensing is not available on the purchase of second hand assets.

Warehouse

The base cost of the warehouse will be the amount paid of £105,995.

Fargum Ltd will be able to take over the remaining structures and buildings allowances from Hanford Ltd. They will continue to get relief on £46,000 at 3% per annum, providing they have obtained a copy of the allowance statement.

Goodwill

The goodwill will fall within the Intangible Fixed Assets regime. As the goodwill was purchased after 1 April 2019, and not as part of a business that included other qualifying intellectual property, no tax relief will be available for its amortisation or impairment. If the goodwill is disposed of at a later date, any loss arising will be treated as a non-trading debit, but any gain will be taxed as trading profits.

If Fargum Ltd has previously disposed of an IFA for a gain, they may be able to claim IFA rollover relief on the purchase of the goodwill.

MARKING GUIDE

TOPIC	MARKS
Part 1	
Taxable total profits	
Trading loss included at nil	0.5
Qualifying charitable donations	0.5
Trading profit	
Profit before disposal of trade and assets	0.5
Balancing charge on factory machinery	1
Super deduction charge on computer equipment	1
Profit/(loss) on goodwill	1
Profit/(loss) on inventory	0.5
SBA	1
No elections for cost/TWDV possible	0.5
Gains	
Gain on factory	2
No losses available on factory machinery/computer equipment	0.5
Gain on warehouse	2
Losses	
Capital loss b/f against current period gains	0.5
Trading loss can't be c/f	0.5
CY against TTP first	1
CB against prior year TTP	1
Extend to TLR	1
Total for part 1	15
Part 2	
Factory	1
Factory machinery and computer equipment	1.5
Warehouse	1
Goodwill	1.5
Total for part 2	5
TOTAL	20

ANSWER 6

1) Capital allowances

	FYAs @ 100%	AIA @ 100%	General pool	Special Rate Pool	Van	Allowances
	£	£	£	£	£	£
TWDV b/f			9,000	900	5,000	
Additions:						
Solar Panels		10,885				
Printers			1,500			
Shelving and Desks			700			
Computers		1,500				
Office Furniture			1,000			
Electric Van	26,000					
Woodworking Machine		12,000				
Wood Saw Machine		7,000				
Disposals:						
Computer Equipment			(250)			
Old van					(4,000)	
Old equipment scrap			(1,200)			
	<u>26,000</u>	<u>31,385</u>	<u>6,750</u>	<u>900</u>	<u>1,000</u>	
FYA @ 100%	<u>(26,000)</u>					26,000
AIA @ 100%		<u>(31,385)</u>				31,385
WDA @ 18%			<u>(1,215)</u>			1,215
WDA				<u>(900)</u>		900
Balancing Allowance @ 50%					<u>(500)</u>	<u>500</u>
Total CAs						<u>60,000</u>

Notes

A personalised number plate does not qualify for capital allowances.

The solar panels are allocated to the special rate pool. Air conditioning and lighting systems are integral features as per s33A. CAA2001. These qualify for AIA.

The printers were acquired from a connected person so no AIA is available.

For the shelving and desks, as Irfaan originally bought the plant and machinery for private purposes and then subsequently uses the plant and machinery in the business, the value on which capital allowances can be claimed is the market value of the plant and machinery when it starts to be used in the business rather than the original cost. s13. CAA2001. No AIA is available.

Office furniture was gifted by another friend who works in a similar trade. The market value is used instead of cost where the plant and machinery is gifted to the trader. s14. CAA 2001. No AIA is available.

For the woodworking machine, £3,000 is paid in January, followed by £3,000 each quarter after. However, as the asset was brought into use in the year, the full £12,000 can be claimed as per s67. CAA2001.

For Irfaan's Wood Saw Machine, Irfaan is required to pay £7,000 on 15 April and £3,000 on 15 September. The first payment is due four months or less after the obligation to pay becomes

unconditional but the second one is not. He therefore 'incurs' expenditure for capital allowance purposes of £7,000 in the year ended 31 March 2024 and £3,000 in the year ending 31 March 2025.

The electric van will qualify for FYAs at 100%. (Note this could also qualify for AIAs).

The deemed disposal value of the laptop gifted to the school is the open market value of £250.

The Special Rate Pool is under £1,000 and so can be written off in full.

The van disposed is in a separate pool due to private usage of 50%.

2) Irfaan's Income Tax liability

Irfaan's taxable profits are: £182,500 - £60,000 = £122,500.

There is a carried forward loss of £12,000 which can be utilised, meaning taxable profits are £122,500 - £12,000 = £110,500.

The winnings from the NS&I bonds are not taxable.

Irfaan's taxable income is as follows:

	Non-Savings £	Interest £	Dividends £
Taxable Profits	110,500		
Bank Interest		1,215	
Dividends			2,285
Total	110,500	1,215	2,285
Less: Personal Allowance (1)	(6,470)		
Taxable Income	<u>104,030</u>	<u>1,215</u>	<u>2,285</u>

Total taxable income: £108,430

Tax Calculation

Non-Savings Income: £39,500 @ 20% =	£7,900
Non-Savings Income: £64,530 @ 40% =	£25,812
Savings Income: £500 @ 0% =	£0
Savings Income: £715 @ 40% =	£286
Dividend Income: £1,000 @ 0% =	£0
Dividend Income: £1,285 @ 33.75% =	£434
Total:	<u>£34,432</u>

Notes:

(1) Personal Allowance:

Net income for the purposes of the taper is reduced by $(1,440 \times 100/80) = 1,800$ due to the gift aid payment.

£12,570 reduced by $((114,000 - 1,800) - 100,000)/2$ £6,100 = £6,470.

(2) Bands rate increased by $(1,440 \times 100/80) = 1,800$ as per gift aid payment

Basic Rate band = 37,700 + 1,800 = £39,500

Higher Rate band = 150,000 + 1,800 = £151,800

Irfaan's NICs liability

Class 2 NICs are payable at £3.45 per week as the profits exceed lower profits threshold of £12,570.
52 weeks @ £3.45 = £179

For Class 4 NICs, the taxable profits of £122,500 are reduced by the carried forward loss of £15,000 to £107,500. Although Irfan set £3,000 of this loss against non-trading income, this does not affect the loss available for Class 4 NIC purposes.

Class 4 NICs are therefore:

	£
Upper profits limit	50,270
Less: lower limit	<u>(12,570)</u>
Class 4 NIC main rate	37,700
@ 9%	3,393
Trading profits	107,500
Less: upper limit	<u>(50,270)</u>
Class 4 additional rate	57,230
@2%	1,145
Total	<u><u>4,538</u></u>

MARKING GUIDE

TOPIC	MARKS
Part 1 - Capital allowances	
Personalised Number Plate	0.5
Solar Panels	0.5
Printers,	0.5
Shelving and Desks	0.5
Office furniture	0.5
Electric Van FYA (or AIA)	0.5
Hire purchase	1
CAs on Initial Payment	1
Disposal of van, private usage	0.5
Other disposals	0.5
Special Rate Pool w/o	0.5
WDA	0.5
Total	7
Part 2 – Income tax and NICs	
Personal Allowance adjustment	1
Additional Rate adjustment (gift aid)	1
Savings allowance	0.5
Dividend allowance	0.5
NS&I tax free	0.5
Use of correct rates	0.5
Total tax due	1
Class 2	1
Class 4	1
Loss adjusted profit	1
Total	8
TOTAL	15