

The Chartered Institute of Taxation

AWARENESS

May 2023

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 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 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. Saul started trading as an accountant on 1 January 2022. He immediately registered for VAT and joined the flat rate scheme. His turnover for the quarter ended 31 March 2023 was £36,000 (VAT inclusive) and his expenses were as follows:

	<u>Net</u>	<u>VAT</u>	<u>Total</u>
	£	£	£
Stationery	100	20	120
Electricity	560	28	588
Rent of business premises	2,400	-	2,400
Advertising	200	40	240

- 1) Explain, with calculations, why Saul is a limited cost trader.
- 2) Calculate the VAT payable by Saul for the quarter ended 31 March 2023.

2. Jessie is VAT registered and runs a chauffeur-driven car hire service. Her turnover for the quarter ended 28 February 2023 was £22,000 and her expenses were as follows:

	£
Fuel for cars used in the business	2,250
Fuel for Jessie's car	680
Gifts of pens bearing the business's phone number to 30 customers	1,200

Jessie's car had CO₂ emissions of 136g/km and is used 65% for business purposes.

On 14 February 2023 she borrowed a car and chauffeur to drive her to the church for her wedding. Jessie would normally charge £600 for this service.

All figures are VAT exclusive. Jessie uses the VAT fuel scale charge where relevant.

Calculate the VAT payable by Jessie for the quarter ended 28 February 2023, showing your treatment of each item.

3. Howard is a sole trader, making wholly exempt supplies. He owns 100% of the ordinary shares in Hamlynne Ltd, a company resident in the UK which makes wholly zero-rated supplies. He also owns 80% of the shares in Gustavo S.L., a company resident in Spain but which trades through a branch in the UK which has its own staff and equipment. Gustavo S.L makes wholly taxable supplies.

Hamlynne Ltd is already VAT registered and files its VAT returns monthly.

Explain:

- 1) Whether Howard, Hamlynne Ltd and Gustavo S.L are eligible to form a VAT group.
- 2) Two potential disadvantages of a VAT group registration in this situation.

4. Salamanca Ltd joined the annual accounting scheme on 1 April 2022 and elected to make three interim payments of VAT. Its VAT liability for the year ended 31 March 2022 was £34,000 and for the year ended 31 March 2023 was £38,000.

State:

- 1) **The amount and due dates of Salamanca Ltd's interim payments of its VAT liability for the year ended 31 March 2023 and the amount of the final payment.**
- 2) **The due date for the final payment and the submission of the VAT return for the year ended 31 March 2023.**

5. Pinckman Ltd, a VAT registered company making wholly taxable supplies, incurred the following input VAT in the quarter ended 31 January 2023:

	£
The lease of a car with CO ₂ emissions of 85g/km for business and private use by the Finance Director.	1,920
A meal during negotiations over the awarding of a potential new contract to Pinckman Ltd. Three of Pinckman Ltd's sales staff were present along with three directors of the potential client, which is a UK based company.	120
A Christmas party costing £186 per head (VAT inclusive) which was attended by 50 members of staff and 50 guests. No charge was made by Pinckman Ltd.	3,100

Calculate, with explanations, the input VAT recoverable by Pinckman Ltd in the quarter ended 31 January 2023.

6. Shraider Ltd started to trade on 1 September 2022. Its taxable turnover in the first few months was as follows:

	£
September 2022	47,000
October 2022	52,000
November 2022	56,000
December 2022	63,000
January 2023	75,000

Shraider Ltd registered for VAT from 1 February 2023.

The input VAT from 1 September 2022 to 31 January 2023 that can be reclaimed is £3,600.

- 1) **Explain why Shraider Ltd should have been registered for VAT from 1 December 2022.**
- 2) **Calculate the maximum late registration penalty that could be charged on the assumption that the failure to notify chargeability was deliberate but not concealed.**

7. Kemi is a VAT registered trader. On 1 January 2021 she bought a computer costing £60,000 for use in her business. She used it 75% for taxable purposes until it was sold on 28 February 2023 for £8,000. All figures are VAT exclusive.

Kemi has a VAT year end of 31 March.

Calculate the sale adjustment under the Capital Goods Scheme in the year ended 31 March 2023.

8. Wixler plc owns and rents out several commercial buildings in the UK. The company has exercised the option to tax over all its commercial buildings.

On 1 May 2023 it sold one of its buildings, Goodman House, to Hyssen Ltd for £200,000. Goodman House has several tenants in situ, none of which are VAT registered.

The sale of Goodman House qualifies as a transfer of a going concern.

Hyssen Ltd plans to carry out extensive renovations to Goodman House.

Explain the VAT implications for Hyssen Ltd of the purchase, renovation and letting of Goodman House.

9. Mahmood is a retailer of both standard rated and zero rated goods. His gross takings for the quarter ended 28 February 2023 were £249,600. During the same period, his VAT exclusive purchases were as follows:

	£
Standard rated	70,000
Zero-rated	21,000

Mahmood uses Apportionment Scheme 1 to calculate his output VAT.

Calculate the VAT payable for the quarter ended 28 February 2023.

10. Babatunde submits his VAT returns quarterly. For the first three quarters of the VAT year ended 30 April 2023, his VAT returns were submitted three weeks late. In each quarter, the VAT liability was paid at the same time as the VAT return was submitted.

It is likely that he will again be three weeks late submitting his VAT return and paying the related VAT due of £6,700 for the quarter ended 30 April 2023.

Babatunde does not have a reasonable excuse for his failures.

Explain how the penalty regime in Finance Act 2021 could apply to Babatunde's:

- 1) **Late filing of VAT returns.**
- 2) **Late payment of VAT for the quarter ended 30 April 2023.**

11. On 1 October 2022 Ignacio was granted a lease on business premises. The Net Present Value of the lease payments is £240,000. Ignacio was so busy getting his business going that he delivered the land transaction return and paid the tax two months late.

- 1) **Calculate the Stamp Duty Land Tax (*Scots Law – Land and Buildings Transaction Tax*) payable by Ignacio.**
- 2) **State the due date for the payment of the Stamp Duty Land Tax (*Scots Law – Land and Buildings Transaction Tax*) and the submission of the land transaction form.**
- 3) **Calculate the late filing and late payment penalties due.**

12. Marie lives in a large house in Cheshire. On 14 March 2023 she bought seven newly-built residential apartments on a development in a linked purchase, paying a total of £1.68 million. She intends to rent out the apartments to tenants.

Calculate the Stamp Duty Land Tax (*Scots Law – Land and Buildings Transaction Tax*) payable on the apartments under the following two alternatives:

- 1) Marie claims Multiple Dwellings Relief.
- 2) Marie does not claim Multiple Dwellings Relief.

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. On 22 August 2020, Jackson died leaving an estate valued at £1.2 million. In his Will he left £300,000 in cash to his son, Max, and the remainder to his wife, Aria.

On 1 March 2023, Aria died leaving an estate valued at £2.06 million to her son, Max. This included the family home which was valued at £750,000.

Neither Jackson nor Aria had made any lifetime transfers.

Calculate the Inheritance Tax payable on Aria's death, assuming all beneficial claims are made.

14. Baxter, who had never married and had made no lifetime gifts, died on 31 January 2023 leaving an estate valued at £640,000. He had always lived in rented accommodation.

Baxter's Will stated that £30,000 was to be left to charity and the rest of the estate to his daughter, Beth.

Calculate the net amount that Beth will receive from Baxter's estate.

15. Lola was born in May 1989 in Spain to Spanish domiciled parents. In May 2012, she moved to the UK but has not acquired a domicile of choice in the UK.

Lola is married to Andrew, who is UK domiciled. Andrew, who is extremely wealthy, has just been diagnosed as terminally ill. In his Will, he leaves his entire estate to Lola.

Explain:

- 1) **Lola's domicile status in 2022/23 and in the future should she continue to live in the UK.**
- 2) **Any elections available to Lola with regards to her Inheritance Tax position and the resulting implications for Lola and Andrew.**

16. Philomena made her first lifetime gifts during 2022/23 as follows:

July 2022	A house worth £200,000 to her son, Jasper, as a marriage gift
October 2022	£15,000 cash to a UK charity
February 2023	£400,000 cash to a discretionary trust created for the benefit of her grandchildren

Calculate any Inheritance Tax payable by Philomena on these gifts, clearly showing your treatment of each item.

17. Juan makes gifts of £3,000 out of capital to his nephew on 6 April each year.

On 1 December 2016, Juan made a cash gift of £75,000 to his sister.

On 1 July 2018, Juan made a transfer to a discretionary trust. The gross chargeable transfer was £543,750, with £43,750 lifetime tax having been paid by Juan.

Juan died on 10 January 2023.

Calculate the Inheritance Tax due on Juan's lifetime gifts as a result of his death.

18. Samantha died on 1 April 2023. At the date of her death she owned the following assets:
- 1) A 30% shareholding in Blaek Ltd, an unquoted trading company, valued at £420,000. Blaek Ltd does not have any investment activities.
 - 2) A 20% shareholding in Horeen Ltd, an unquoted investment company, valued at £200,000.
 - 3) A farm with an open market value of £700,000, which Samantha had always let out to a tenant farmer. The lease had five years remaining at the time of Samantha's death.

State, for each of the assets, whether Business Property Relief or Agricultural Property Relief are potentially available and any further information needed to determine that availability.

19. On 1 September 2022, Jakob gave one from a set of two antique chairs to his daughter Ariana. On that day, the market value of one chair was £15,000 and the market value of the set was £35,000.

On 1 December 2022, Jakob gave 1,000 shares in Liix Ltd to his son, Raymond. Prior to the gift, Jakob owned 80% of the 10,000 ordinary shares of Liix Ltd, and his civil partner owned the remaining 20%. On that day, the shares in Liix Ltd were valued as follows:

<u>% shareholding</u>	<u>Value per share</u>
	£
100%	150
90%	120
80%	100
70%	90
10%	10

Calculate the Inheritance Tax value of the transfers made by Jakob in 2022/23, before taking into account any exemptions or reliefs.

20. Rodriguez is considering transferring some assets into a discretionary trust for the benefit of his adult children.

Explain:

- 1) **Whether assets transferred into the trust will qualify for gift holdover relief, and if so, when and by whom any claim must be made.**
- 2) **Whether it would make any difference if Rodriguez added his wife as a beneficiary of the trust.**

21. On 1 April 2013, Alex created a discretionary trust and transferred to it cash of £750,000. The trustees paid the Inheritance Tax due. Alex had not made any previous lifetime transfers.

On 31 March 2020, the trustees made a gross capital distribution of £150,000 to one of the beneficiaries.

On 1 April 2023, the value of the assets held in the trust was £980,000.

Calculate the principal charge for the trustees arising on 1 April 2023.

22. The Gamma Discretionary Trust was created on 6 April 2022 and is the only trust created by the settlor. The trust received the following income for 2022/23:

	£
Property income	18,000
Interest	7,000
Dividends	6,000

Trustees' expenses (met from income) for the year amounted to £1,100.

Calculate the Income Tax payable by the trustees for 2022/23.

23. In 2005, Narcissa created the Norco Discretionary Trust for the benefit of her grandchildren. Narcissa had created another discretionary trust for the benefit of her children in 1985.

In July 2012, the trustees of the Norco Discretionary Trust bought a plot of five acres of land for £70,000.

In November 2017, the trustees of the Norco Discretionary Trust sold one acre of the land for £25,000 when the value of the remaining four acres was £105,000.

In February 2023, the trustees of the Norco Discretionary Trust sold the remaining four acres for £175,000. The legal and professional fees on disposal were £2,300.

Calculate the Capital Gains Tax payable by the trustees of the Norco Discretionary Trust for 2022/23.

24. In June 2021, Francesca made a gift to her daughter of £15,000 and in September 2021 she made a transfer into a discretionary trust of £380,000. At the time of the gift and the transfer she hadn't realised there would be Inheritance Tax implications and so no returns have yet been submitted.

Explain when and how the gift and the transfer should have been reported and any penalties that may be imposed.

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. For the period of account 1 January 2022 to 31 March 2023, Apull Ltd had tax adjusted trading profits before capital allowances of £1.5 million.

The tax written down value of the main capital allowances pool at 31 December 2021 was £100,000. There were no additions or disposals of plant and machinery during the period.

The company received rent of £36,000 for the period from 1 April 2022 to 31 March 2023.

On 1 February 2023, the company had sold a warehouse used in the trade which resulted in a chargeable gain of £20,000.

Calculate Apull Ltd's Corporation Tax liabilities for the period of account ended 31 March 2023.

26. The Finance Director of Clemintime Ltd has included a provision of £25,500 in the company's accounts for the year ended 31 March 2023.

The amount relates to a builder's estimate to replace the roof of a building used in the company's trade. The damage was caused by a storm on 10 March 2023 and the work will be carried out in June 2023.

Explain whether the provision will be deductible in calculating the company's taxable trading profits for the year ended 31 March 2023.

27. For the year ended 31 March 2023, Daate Ltd had tax adjusted trading profits before capital allowances of £240,000.

The tax written down values at 1 April 2022 were £nil for the main pool plant and machinery and £102,000 for the special rate pool plant and machinery.

During the year, the company incurred capital expenditure of £30,000 on main pool plant and machinery and £82,000 on special rate pool plant and machinery. None of the assets were cars and all of the assets were bought new.

On 8 January 2023, the company sold an item of main pool plant and machinery for £12,000. It had bought the item during the year ended 31 March 2022 for £20,000 and had claimed the super-deduction.

Daate Ltd is part of a group. The maximum amount of the annual investment allowance allocated to it by the group for the year ended 31 March 2023 is £40,000.

Calculate the company's taxable trading profits for the year ended 31 March 2023.

28. Elderbury Ltd is a trading company and it prepares accounts to 30 April each year.

On 1 October 2022, the company bought an investment property. The purchase was funded by a bank loan and the interest payable on the loan was £6,000 for the period 1 October 2022 to 30 April 2023.

On 1 November 2022, the company granted a 40-year lease on the investment property to a third party, charging a premium of £30,000. Elderbury Ltd paid legal fees of £1,500 in respect of the lease.

Under the terms of the lease, the rent is £2,000 per month payable in advance on the first day of the month. The payments due on 1 March and 1 April 2023 were paid late, in May 2023.

Explain, with calculations, how the income and expenses in relation to the property will be treated in calculating Elderbury Ltd's property business income for the year ended 30 April 2023.

29. On 1 April 2022, Fruute Ltd sold a patent (Patent 1) and bought a new patent (Patent 2). Both transactions were with unrelated parties and all patents are held by the company for trading purposes.

The company's accounting profit for the year ended 31 March 2023 was £1,880,000 after taking into account the following:

- 1) A profit on the disposal of Patent 1 of £520,000 (sale proceeds of £800,000 less amortised cost of £280,000), and;
- 2) Amortisation of Patent 2 of £60,000 (cost of £600,000 amortised over 10 years).

The company had bought Patent 1 for £400,000 on 1 April 2019. It had a tax written down value at 31 March 2022 of £210,000.

Calculate Fruute Ltd's taxable trading profits for the year ended 31 March 2023 assuming all beneficial claims and elections are made.

30. Graypp Ltd prepares its accounts to 31 July and is a close company. It does not pay Corporation Tax in instalments.

It had the following transactions with its sole shareholder, Mr Huckleberry:

		£
18 June 2022	Loan to Mr Huckleberry	100,000
14 January 2023	Repayment made in cash by Mr Huckleberry	60,000
10 April 2023	Repayment made in cash by Mr Huckleberry	30,000
2 May 2023	Loan to Mr Huckleberry	50,000

Explain how the company's s.455 CTA 2010 tax liability is calculated for the year ended 31 July 2022.

31. For the year ended 31 March 2023, Junipaberry Ltd had tax adjusted trading profits of £420,000 after deducting expenditure in respect of research and development, as set out below. The company claims the Research and Development Expenditure Credit in respect of its qualifying expenditure.

Two employees were directly engaged in the company's research and development activities: Ms Kiwi, who spent 100% of her time and Ms Kabosu, who spent 30% of her time on research and development activities. Salaries were £82,000 per annum for Ms Kiwi and £100,000 per annum for Ms Kabosu.

The company rented premises solely for the research and development activities. Rent payable was £18,000 and water and electricity costs were £4,000 for the year ended 31 March 2023.

Calculate the Corporation Tax payable by the company for the year ended 31 March 2023.

32. Keywei Ltd was incorporated and began to trade on 1 January 2021. Its results are as follows:

	<u>Year ended</u> <u>31/12/2021</u>	<u>Three months</u> <u>ended</u> <u>31/03/2022</u>	<u>Year ended</u> <u>31/03/2023</u>
	£	£	£
Trading profit/(loss)	30,000	8,500	(66,000)
UK property business profit	12,000	3,000	-
Chargeable gain/(loss)	-	(2,000)	10,000
Qualifying charitable donations made	-	-	(1,500)

Calculate the company's taxable total profits for each period assuming all beneficial claims and elections are made.

33. Lemum Ltd and Manngoe Ltd are both 100% subsidiaries of Nectereen Ltd. The companies' results are as follows:

Year ended	<u>Lemum Ltd</u>	<u>Manngoe Ltd</u>	<u>Nectereen Ltd</u>
	<u>31/03/2023</u>	<u>31/03/2023</u>	<u>31/12/2022</u>
	£	£	£
Trading profit/(loss)	-	45,000	(60,000)
Non-trade loan relationships profit	-	-	7,000
Overseas property business loss	(14,000)	-	-
Chargeable gain/(loss)	(10,000)	8,000	-
Qualifying charitable donations made	-	(2,000)	-

Calculate Manngoe Ltd's taxable total profits assuming all beneficial claims are made and clearly showing your treatment of all items.

34. On 8 January 2023, Orunj Ltd sold a factory for £500,000, paying legal fees of £1,800. It had bought the factory for £162,000 on 1 May 2015 and had paid Stamp Duty Land Tax of £1,620 on the purchase.

On 1 July 2020, the company had spent £20,000 on an extension to the factory. It had claimed structures and buildings allowances of £1,500 in respect of the expenditure up to the date of disposal.

Calculate the chargeable gain or allowable loss on the sale of the factory.

35. Papiar GmbH is incorporated in Germany and has its head office there. It has a branch in England from which it manufactures and sells goods to the UK market under the supervision of the German head office.

For the year ended 28 February 2023, Papiar GmbH had trading profits of £800,000 in respect of its activities in Germany and £300,000 in respect of its UK activities. The UK trading profits are calculated after deducting a management charge of £100,000 and a royalty of £50,000 payable to the head office in Germany.

Explain Papiar GmbH's liability to UK Corporation Tax for the year ended 28 February 2023.

36. Razbry Ltd owns 100% of Strwbury Ltd and 40% of Tanjereen Ltd. Razbry Ltd's recent results were as follows:

	<u>Year ended</u>	<u>Year ended</u>
	<u>31 March 2022</u>	<u>31 March 2023</u>
	£	£
Taxable total profits	300,000	2,000,000
Exempt dividends received from Tanjereen Ltd	-	50,000

Explain, with calculations, whether Razbry Ltd must pay its Corporation Tax liability for the year ended 31 March 2023 in instalments.

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 2022/23, Mary had the following income:

	£
Employment income from Earps Ltd	25,000
Interest on Treasury Stock	8,000
Interest on National Savings Certificates	12,000
Dividends from shares in Earps Ltd	15,000

Earps Ltd is an employee controlled company. During 2022/23 Mary paid interest of £500 on a loan which she had taken out in 2021/22 to buy the shares in Earps Ltd.

Calculate Mary's taxable income for 2022/23, clearly showing your treatment of each item.

38. During 2022/23, Georgia was employed by Stanway Ltd on an annual salary of £30,000.

In addition to her salary, she was provided with a car which she used for both business and private journeys. The car was a plug-in hybrid and had a list price of £45,000 when first registered on 1 November 2021. It had CO₂ emissions of 32g/km and an electric range of 75 miles. Stanway Ltd does not provide petrol for private journeys.

On 5 November 2022, Stanway Ltd wrote off an interest-free loan of £8,000 which had been made to Georgia in 2019.

On 17 December 2022, Stanway Ltd held a Christmas party for all its staff at a cost of £160 per head.

On Georgia's birthday on 20 February 2023, Stanway Ltd sent her a bouquet of flowers costing £40.

Georgia paid £10 per month to charity under the payroll giving scheme.

Calculate Georgia's employment income for 2022/23, clearly showing your treatment of each item.

39. Francisco is an employee of Langella Ltd on an annual salary of £280,000. He is a member of a personal pension scheme. For 2022/23 Langella Ltd contributed £50,000 into the scheme and Francisco contributed £12,000 (gross).

Francisco has no unused annual allowance brought forward.

Explain, with supporting calculations, the amount of Francisco's annual allowance for 2022/23.

40. Omar is 48 years old and is a director of Welba Ltd, a company with more than 500 employees. During 2022/23, he was employed on an annual salary of £66,000.

On 18 May 2022, to congratulate Omar on 10 years of service with the company, Welba Ltd gave Omar a set of golf clubs and paid for a years' membership at his local golf club at a total cost of £1,800. The gift was subject to a PAYE Settlement Agreement.

Calculate the National Insurance Contributions payable for 2022/23 by Omar and by Welba Ltd in respect of Omar.

41. For 2022/23, Nikita and her civil partner, Alessia each had employment income of £30,000. In addition, they received interest on their joint savings account of £2,400. The balance on the account was £80,000, of which £60,000 came from an inheritance received by Alessia on the death of her grandfather in 2020.

They also have income and expenses in relation to jointly-owned property as follows:

	<u>Income</u>	<u>Expenses</u>
	£	£
From renting out a room in their main residence	18,000	480
From renting out the driveway at their main residence on an ad-hoc daily basis	2,200	220

Their main residence cost £500,000 in 2015. Nikita had contributed £350,000 towards the purchase price and Alessia had contributed the balance of £150,000.

Calculate the taxable amounts of Nikita's interest and property income, clearly showing your treatment of each item. Assume any beneficial elections have been or will be made.

42. Abimbola lets out three furnished properties which qualify as Furnished Holiday Lettings where relevant. Properties 1 and 2 are in the UK and Property 3 is in the USA.

The following information is available for 2022/23:

<u>Property</u>	<u>1</u>	<u>2</u>	<u>3</u>
	£	£	£
Income	9,000	15,000	10,000
General expenses (all allowable)	(10,000)	(6,000)	(12,000)
Replacement of microwave oven (note)	(300)	-	-
Replacement of fitted kitchen units (note)	-	-	(2,000)
Mortgage interest paid	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>
Property income/(loss)	<u>£(2,300)</u>	<u>£8,000</u>	<u>£(4,000)</u>

The microwave oven is a 900W combination oven, microwave and grill, and replaced the previous standard microwave oven which was broken by holidaymakers. An equivalent replacement model would have cost £85.

The kitchen units replaced the previous fitted units which were damaged by holidaymakers. The original units had cost £1,900 several years ago.

The cash basis is not used.

Explain:

- 1) **How tax relief is given for the cost of the replacement microwave oven, kitchen units and the mortgage interest paid.**
- 2) **How tax relief is given for the losses on properties 1 and 3.**

43. Morag is a Scottish taxpayer.

For 2022/23 her only income was taxable non-savings income of £140,000. During the year she had paid gift aid donations totalling £2,400 (gross).

Calculate Morag's Income Tax liability for 2022/23.

44. Idris bought a dilapidated house on 1 July 2011. He sold it on 1 July 2022 at a gain. His use of the property during his period of ownership has been analysed as follows:

1 July 2011 – 22 December 2011	House being renovated before occupation.
23 December 2011 – 30 June 2014	House occupied as main residence.
1 July 2014 – 30 November 2017	House unoccupied as Idris was working in his employer's US office.
1 December 2017 – 31 October 2021	House occupied as main residence.
1 November 2021 – 1 July 2022	House unoccupied as Idris went to live with his father.

Explain why the gain on the sale of the house is exempt from Capital Gains Tax by reason of Private Residence Relief.

45. On 23 December 2017, Reddick plc granted an option over 10,000 shares to its employee, Lance, under a non-tax advantaged scheme. The terms of the option were that Lance would pay 5p per share on the grant of the option and could exercise his option at any time after 23 December 2022 at an exercise price of £4 per share.

On 3 January 2023, Lance exercised his option when the market value per share was £6.25.

The shares are readily convertible assets. Lance sold the shares on 25 March 2023 for £6.75 per share.

Lance is a higher rate taxpayer.

Calculate:

- 1) The Income Tax and National Insurance Contributions (if any) payable by Lance on the exercise of the option.**
- 2) The chargeable gain arising on the sale of the shares on 25 March 2023.**

46. Ameera had always been resident in India. She came to the UK on 27 October 2021 to stay with relatives and met Mazidur, who is UK resident. On 14 February 2022, Ameera and Mazidur married and on 31 March 2022 Ameera went back to India to rent out her home there. She returned to the UK on 1 November 2022 when she moved into her and Mazidur's new house.

It has already been determined that the automatic overseas and UK tests have not been met for 2022/23.

Explain, using the sufficient ties test, Ameera's residency status in 2022/23.

47. Germayne Ltd is an unlisted trading company.

Jack had subscribed for shares in Germayne Ltd as follows:

	<u>Number</u>	<u>Cost</u> £
20 February 2014	10,000	8,500
1 August 2018	10,000	11,200

Jack had never worked for Germayne Ltd.

On 17 January 2023, Jack sold all of his shares in Germayne Ltd for £62,000.

Jack is an additional rate taxpayer.

Calculate Jack's Capital Gains Tax liability for 2022/23.

48. Liev is an employee of Schryber Ltd and is a higher rate taxpayer. In April 2021 he bought a residential property and from 1 May 2021 he let it out to tenants.

He notified HMRC of his new source of taxable income on 4 October 2022 and a tax return was issued on 15 October 2022. He submitted the tax return online on 27 December 2022 and found that he owed an additional £2,720 in Income Tax.

Explain the options available to Liev in paying the additional Income Tax owed for 2021/22.

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. Ben runs a restaurant. For the year ended 31 March 2023, he had a profit before tax of £24,000, which was after deducting the following amounts:

	£
Entertaining (£400 staff; £750 customers)	1,150
Fine relating to a breach of health and safety law	100
Theft by an employee	320

Ben claims flat rate expenses for his motor vehicle expenditure and business use of his home. For the year ended 31 March 2023, he drove 2,500 business miles and worked from home for 40 hours per month.

Calculate Ben's tax adjusted trading profit for the year to 31 March 2023, showing your treatment of all items.

50. Chloe commenced trading on 1 May 2022, preparing accounts to 30 April. Her profits for the year ended 30 April 2023 were £72,000.

Calculate Chloe's Class 4 National Insurance contributions for 2022/23 and explain how her Class 2 National Insurance contributions for 2022/23 will be calculated and paid.

51. On 1 October 2022, Nimra, a plumber, acquired and immediately brought into use a van under a hire purchase contract.

Under the contract, Nimra will pay a total of £23,328 over four years, which includes interest of £1,728. Ownership of the van will pass to Nimra once the final payment is made. At 31 March 2023, she had made payments totalling £4,482, including interest of £432.

The van has CO₂ emissions of 35g/km. Nimra uses the van 80% for business purposes.

Explain with calculations the relief available to Nimra in respect of the van in the year ended 31 March 2023.

52. Suresh incurred the following expenditure on the construction of a building for use as an office in his trade:

	£
Purchase of land	50,000
Demolition of existing building	25,000
Structural work to new building	80,000
Water and power systems for new building	15,000

The new building was completed on 1 August 2022 and first used on 1 October 2022. Suresh prepares his accounts to 31 March.

Calculate the structures and buildings allowance available to Suresh for the year ended 31 March 2023 showing your treatment of all items.

53. Sean, Mandy and Debbie have traded in partnership for a number of years. Profits are shared annually as follows:

	<u>Salary</u>	<u>Interest on capital</u>	<u>Residual profit share</u>
	£	£	
Sean	-	-	40%
Mandy	24,000	-	40%
Debbie	30,000	1,200	20%

Sean's drawings are £500 per month.

The partnership had a tax adjusted trading profit of £50,000 for the year ended 31 March 2023.

Calculate each partner's share of the tax adjusted trading profit or loss for the year ended 31 March 2023.

54. Beatrice had the following income and losses for 2022/23:

	£
Trade loss	310,000
Employment income	220,000
Capital gains	55,000

She had capital losses brought forward of £21,000.

Explain, with calculations, how relief may be given for the trade loss in 2022/23.

55. Usha commenced trading on 1 January 2021, preparing accounts to 31 March each year.

Her income in recent years was as follows:

	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
	£	£	£	£
Trade profit/(loss)	-	18,000	14,000	(48,000)
UK property business profit	13,000	6,000	2,000	-

Explain why Usha can claim early trade loss relief and how the loss for 2022/23 will be offset.

56. Peter has elected to use the cash basis to calculate his taxable trading income for 2022/23, having previously prepared accounts in accordance with GAAP.

He received/paid the following amounts in the year to 31 March 2023:

	<u>Received/(paid)</u>
	£
Sales (invoices raised totalled £60,000)	52,000
Sale of equipment (annual investment allowance of £1,800 claimed in 2019/20)	400
Purchase of materials	(27,000)
Interest paid on a loan for the purposes of the trade	(750)
Purchase of a car (CO ₂ emissions 110g/km)	(13,000)

The equipment and the car were used 100% for business purposes.

At 31 March 2022, Peter had closing stock of £1,200.

Calculate Peter's taxable trading income for the year ended 31 March 2023 showing your treatment of all items.

57. On 31 January 2023, Louise made the following disposals:

<u>Asset sold</u>	<u>Gain</u>
	£
Shares in L85 Ltd	400,000
Building used by L85 Ltd as a factory	100,000
Building used by L85 Ltd as a warehouse	40,000

The disposal of the shares was a material disposal for the purposes of Business Asset Disposal Relief. The buildings were sold shortly after the share sale as part of Louise's withdrawal from L85 Ltd's business.

Louise bought the factory on 1 February 2003 but it was not used by L85 Ltd until 1 February 2009. The warehouse was purchased by Louise on 1 August 2020 and was used by L85 Ltd from that date.

Louise charged L85 Ltd rent for both the factory and the warehouse at 50% of the market rate.

Louise has not made any other disposals of chargeable assets. She is a higher-rate taxpayer.

Calculate the Capital Gains Tax payable by Louise.

58. Lulu bought her shares in Dezind Ltd in 2010 for £110,000. On 30 November 2022, Lulu gave her shares to her daughter, Olivia. The market value of the shares at that date was £300,000. Lulu held at least 5% of the voting rights in the company at all relevant times prior to the transfer to Olivia.

The company's assets at 30 November 2022 were valued as follows:

	£
Premises	800,000
Shares held as an investment	200,000
Stock	150,000

Calculate Lulu's chargeable gain on the disposal assuming that a claim for gift relief is made.

59. Cherise carries on a trade writing content for social media platforms. One of her clients, Link Ltd, has asked if she can work for them from 9am to 1pm, Monday to Friday, for one month.

Cherise will be paid by the hour and will work from home using her own IT equipment. All content must be written in line with Link Ltd's guidelines and to deadlines set by Link Ltd. Cherise will work for other clients in the afternoons.

Cherise has a good relationship with another person providing similar services, Jordan. Link Ltd has agreed that Jordan can cover for her on one of the days, when she is attending a wedding, and in the event that she is ill.

Identify five factors relevant to determining whether a person is employed or self-employed for tax purposes. For each factor explain whether it points to Cherise being employed by Link Ltd or self-employed.

60. Hannah is self-employed. Her tax liabilities and Class 4 National Insurance contributions (NICs) for recent years were as follows:

	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
	£	£	£
Income Tax	3,500	4,686	5,486
CGT	3,800	-	-
Class 4 NICs	1,845	2,379	2,879

Hannah paid all her taxes on time, except that she did not pay her Income Tax and Class 4 NICs due on 31 January 2023 until 4 March 2023.

Calculate the Income Tax and Class 4 NICs due on 31 January 2023 and any penalty arising for the late payment.