

The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

May 2024

Suggested answers

49)

(a): Flat rate	£	
45p per mile for 8,000 miles	3,600	1
Parking on business journeys	150	1*
Total deduction for flat rate	<u>£3,750</u>	
 (b): Actual expenditure	 £	
Capital allowances: £15,000 x 6% x (8,000 miles / 10,000 miles)	720	2
Petrol: £1,600 x (8,000 miles / 10,000 miles)	1,280	1
Parking on business journeys	150	
Total deduction for actual expenditure	<u>£2,150</u>	

***for correct treatment in both cases**

50)

Profit	£	
	32,000	
Add:		
Salary for Sam [disallow as drawings]	9,000	1
Leased car disallowance [disallow 15% as CO ₂ > 50g/km]	540	1
Bad debts provision [disallow as not specific]	1,000	1
Interest on underpaid tax [disallow as not incurred in generating profits]	300	1
Gifts [allow as includes logo, cost <£50 & not food, etc.]	-	1
	<u>£42,840</u>	

Note: explanations given above are not required for the marks

51)

	General pool	CAs	
	£	£	
Bfwd	12,400		
Additions [no AIA as bought from connected person]	2,000		1
Additions qualifying for AIA	3,000		
AIA	(3,000)	3,000	1
Disposal proceeds	(1,800)		1
	<u>12,600</u>		
WDA at 18% x (9/12)	(1,701)	1,701	2
Cfwd	<u>£10,899</u>		
Max. capital allowances		<u>£4,701</u>	

52)

Profits chargeable to Class 4 NICs: £28,000 - £4,000 = £24,000				1
	£		£	
Profits up to lower limit	12,570	0%	0	1
Profits between lower and upper limits	<u>11,430</u>	9%	1,029	1
	<u>£24,000</u>		<u>£1,029</u>	
Class 4 NICs for 2023/24				

Class 2 NICs cease on reaching pensionable age. Therefore, for 2024/25 Alan will pay weekly contributions for that part of the year before reaching pensionable age. 1

Class 4 NICs cease from the start of the tax year after the one in which pensionable age is reached: 2025/26. Therefore, he will pay Class 4 NICs as normal in 2024/25. 1

53)

	£	Agnes (30%) £	Beatrice (30%) £	Claire (40%) £	
Profits for 6m to 31/03/24: (£60,000 x (6/12))	30,000				1
Salaries (for 6m)	<u>(3,000)</u>			3,000	1
	27,000				
Allocate profit	(27,000)	8,100	8,100	10,800	1
		<u>£8,100</u>	<u>£8,100</u>	<u>£13,800</u>	

A loan to buy into a partnership is a qualifying loan. 1

Therefore, the interest paid of £1,800 is a deductible payment which is taken into account in calculating Claire's net income. 1

54)

Profit		£	340,000	
Add, disposal proceeds			12,000	1
Opening debtors		47,000		1
Opening stock		35,000		1
Opening creditors		<u>(2,500)</u>		1
Adjustment income		79,500		
Spread over 6 years			13,250	1
Trade income			<u>£365,250</u>	

55)

Hamidi may claim relief under s.64 ITA 2007 against his net income (ie including his employment income) for 2023/24 and/or 2022/23. 1

However, relief for each year is restricted to the higher of:

- £50,000; and 1
- An amount equal to 25% of Hamidi's adjusted total income for the year. 1

The restriction applies with regard to Hamidi's employment income only; it does not apply with regard to Hamidi's trade income for 2022/23. 1

Should any loss remain after the s.64 claim, Hamidi may make a claim under s.83 to offset the remaining loss against his trade income for 2024/25. 1

56)

Travel costs

Not deductible as home to place of work. 1

Premium

A deduction may be claimed in respect of the part of the premium that is taxable as income on the landlord (the taxed premium). 1

The taxed premium is given by the formula: premium x [(50-(25-1))/50].

Relief is given over the length of the lease so that 1/25th of the taxed premium may be claimed as a deduction for the year ended 31 March 2024. 1

Legal costs

Disallowable as capital. 1

Training costs

Not allowable as Kellan has acquired new expertise and so the costs are capital in nature. 1

57)

	£	
Proceeds [market value as connected person]	230,000	
Cost	(55,000)	
Gain before gift relief	175,000	1
Gift relief (balancing figure)	(150,000)	
Gain after gift relief (£80,000 - £55,000)	25,000	1
Less, annual exemption	(6,000)	1
Gain after annual exemption	£19,000	
CGT at 20%	£3,800	1
Base cost of building for Louise: £230,000 - £150,000	£80,000	1

58)

	£	
BADR lifetime limit	1,000,000	1
Less, 2017/18 disposal	(120,000)	1
Less, 2023/24 gain on shares in Mundai Ltd	(400,000)	
Less, 2023/24 gain on building [associated disposal] (£220,000 x 75%)	(165,000)	1+1
BADR lifetime limit remaining	<u>£315,000</u>	1*

***For correct treatment of shares in Mundai Ltd and Tusedai Ltd [shares in Tusedai Ltd do not qualify for BADR as not held for at least two years]**

59)

The transfer is a part disposal for CGT purposes as Michael has sold 60% of the asset.	1
Under the part disposal rules, Michael will have a gain of £96,000 for 2023-24, being proceeds of £180,000 (60% of £300,000) less the allowable cost of £84,000 (60% of £140,000).	1
Michael's base cost for his remaining interest in the building is the remainder of the cost: £140,000 - £84,000 = £56,000.	1
The capital loss brought forward may not be offset against the gain as the loss arose on the disposal of an asset to a connected person.	1
The loss is carried forward and may only be offset against gains realised on future disposals to the same person.	1

60)

Return and payment due on 31 January 2024. Submitted/paid on 23 March 2024.

Penalty for late return	£100	1
Penalty for tax paid late: £3,200 x 5%	£160	1
Interest on tax paid late: £3,200 x 6.5% x ((28+23)/365)	£29	1
Total interest and penalties due	<u>£289</u>	
POAs are not required for 2023/24 as		
- For Patrick, the Income Tax payable under Self Assessment for 2022/23 was less than £1,000		1
- For Laura, more than 80% of her total Income Tax liability was collected through PAYE ((£16,000 / (£16,000 + £3,200) = 83%)		1