The Chartered Institute of Taxation

Advanced Technical

Taxation of Owner-Managed Businesses

May 2023

Suggested solutions

ANSWER 1

1. Calculation of Total taxable profits

	£	£	Notes
Profit before tax		199,200	
Add:			
Depreciation of tangible assets	9,000		1.
Increase in pension provision	500		2.
Replacement of water heating system	3,000		3.
Legal and professional fees re: Fine	1,420		4.
Lease premium adjustment	5,720		5.
		19,640	
Less:			
Dividend received	500		6.
Revaluation of quoted investments	1,000		7.
Profit on disposal of van	1,000		8.
Enhancement of qualifying R&D costs at 130%	104,000		9.
		(106,500)	
Total taxable profits before capital allowances		112,340	
Less: Capital Allowances		(14,600)	10.
Total taxable profits		£97,740	

Notes:

1. Depreciation is not an allowable deduction for corporation tax purposes.
2. Pension contributions are deductible on a paid basis. The movement on the pension accrual must therefore be adjusted in the computation. As it has been increased an add back of £1,400 less £900 must be made.
3. The items in repairs and maintenance must be dealt with as follows:
    - Replacement windows are allowable as a revenue deduction on the basis that they are a simple replacement on a like for like or modern-day equivalent basis.
    - Re-tiling of the kitchen will similarly be allowable as a repair.
    - The replacement of the entire water heating system must be added back as capital and treated as an integral feature in the capital allowance computation, as below.
4. The items in legal and professional must be dealt with as follows:
    - Fines are not allowable and neither are legal fees incurred in disputing such fines
    - A valuation fee for bank purposes is an allowable deduction
    - Fees incurred in creating an SAYE scheme are allowable under s999 CTA 2009
5. The items in rent costs must be dealt with as follows:
    - Part of the premium paid to the landlord will be treated as capital and part will be treated as income under the provisions of s217 CTA 2009. The amount treated as income will also be an allowable deduction for Robinson's Fixings Ltd over the term of the lease. In this case the allowable amount is calculated as the premium paid less 2% times the premium paid times the term of the lease less one year.
    £6,000 – 2%*£6,000*(9-1) = £6,000 - £960 = £5,040 over the nine year term or £560 per annum. As the lease commenced on 1 November 2022, a six month period to 30 April 2023 gives an allowable deduction of £280.
    - The removal and rental costs are allowable deductions.
6. The dividend received from the quoted investment is not liable to corporation tax but see below regarding the computation post 1 April 2023.
7. The revaluation of quoted investments is non-taxable.
8. The van sold had a net book value of £2,000 and was sold for £3,000. This profit on disposal is not taxable as the proceeds will be dealt with in the capital allowance computation.

9. The qualifying R&D expenditure qualifies for a 130% enhancement as an additional deduction for tax purposes.

   90% of staff costs are allowable in respect of the 80% time spent directly on R&D and the 10% in discussions relating to project issues. The general administrative time is not allowable. The employer's NIC costs are similarly 90% allowable.

   The sub-contacted payments made to an unconnected company are allowable but only to the extent of 65%.

   The administrative costs do not qualify for enhancement.

   90% * £74,950 = £67,455
   90% * £7,800 = £7,020
   65% * £8,500 = £5,525
   Total = £80,000
   Enhancement at 130% = £104,000

10. Capital allowances computation

	General Pool	Integral Features	Allowances	Notes
Additions with no super deduction:				
Second Hand Van	8,750			a.
Water Heating System		3,000		b.
Annual Investment Allowance	(8,750)	(3,000)	11,750	c.
Additions with super deduction:				
New Furniture	4,500			
Super deduction at 130%	(4,500)		5,850	d.
Sale Proceeds for Van	(3,000)			e.
Balancing Charge	3,000		(3,000)	
Written Down Value c/fwd	£0	£0		
Capital Allowances			£14,600	

a. As the van is second hand it does not qualify for the super deduction
b. As an integral feature the water heating system does not qualify for the 130% super deduction. It would qualify for the 50% special rate allowance, but claiming the annual investment allowance is more beneficial.
c. The costs in respect of the car park extension do not qualify for capital allowances.
d. The new furniture qualifies for the super deduction at 130% of cost
e. As the sale proceeds are less than cost the full amount is included in the capital allowances computation.

Corporation Tax Computation

	Financial Year 2022	Financial Year 2023	Total
Apportionment of taxable profits	£	£	£
£97,740 allocated 11:1	89,595	8,145	97,740
Corporation Tax thereon at 19%:25%	17,023	2,036	19,059
Less: Marginal Relief (as below)	-	(189)	(189)
	£17,023	£1,847	18,870

Marginal Relief is calculated using the formula F * (U –A) * (N/A) where
F is the marginal fraction = 3/200
U = Upper Limit = £250,000 apportioned for length of period £250,000 * 1/12 = £20,833
N = Basic Profit = £8,145
A = Augmented Profit = Total taxable profits (£97,740) plus Dividend Received (£500) apportioned for length of period *1/12 = £8,187
3/200 * (£20,833 - £8,187) * (£8,145/£8,187) = £189

MARKING GUIDE

TOPIC	MARKS
Calculation of total taxable profit	
Add backs:	
Depreciation	0.5
Increase in pension accrual	1.0
No adjustment for bonus provision as payable within 9 months	0.5
Replacement water heating system	1.0
No adjustments for windows or tiling	0.5
Legal and professional late filing penalty	1.0
No adjustment for valuation fee or SAYE set up	0.5
Lease premium adjustment	2.5
No adjustments for removal costs or rental costs	0.5
Deductions:	
Dividend received	0.5
Revaluation of quoted investments	0.5
Profit on disposal of van	1.0
Enhancement of qualifying R&D costs	3.0
Capital Allowances computation	
Annual Investment Allowance Computation	1.0
Super deduction Computation	1.5
Other Calculation	1.5
Calculation of Corporation Tax Liability	
Apportionment of profits between FY22 and FY23	0.5
Calculation of Corporation Tax Liability for FY 2022	0.5
Calculation of Corporation Tax Liability for FY 2023 at full rate	0.5
Marginal Relief Computation	1.5
TOTAL	**20.0**

ANSWER 2

1. Net cost of employing Heidi

Additional costs incurred (W1)	20,884
Tax savings (W3)	(13,033)
Net cost	7,851

Workings

(W1) Additional costs of employing Heidi

The additional costs of employing Heidi are:

Cost	**£**
Salary	16,400
Private medical insurance	960
Cost of phone	300
Cost of laptop	580
Pension contribution (16,400*0.05)	820
Mileage payments (2,600*0.6)	1,560
Additional payroll costs	120
Employer's class 1 National Insurance (NI) (W2)	0
Class 1A NI (960 * 15.05%)	144
Total costs	**20,884**

(W2) Employers' class 1 National Insurance

	£
Salary	16,400
Mileage in excess of 45p/mile ((2,600*(0.6-0.45))	390
Total chargeable to employers' class 1 NI	16,790
Employers NI (16790-9100)*15.05%	1,157
Amount due after employment allowance of £5,000	**0**

(W3) Tax savings from employing Heidi

	£
Tax on Remi without employing Heidi (W4)	45,794
Tax on Remi including Heidi's employment (W4)	32,761
Tax saving from employing Heidi*	**13,033**

(W4) Income Tax and National Insurance for Remi with and without employing Heidi

	Without employing Heidi £	**Including Heidi's employment £**
Taxable trading profits (W5)	120,000	99,116
Less Personal allowance (12,570-(120,000-100,000/2)	(2,570)	(12,570)
Taxable Income	117,430	86,546
Basic rate tax (37,700*20%)	7,540	7,540
Higher rate tax ((117,430-37,700)*40%)/ (86,546-37,700)*40%))	31,892	19,538
Income tax liability	**39,432**	**27,078**
Class 2 National Insurance contributions (£3.15*52)	**164**	**164**
Class 4 National Insurance contributions at 10.25% ((50,270-11,908)*10.25%)	3,932	3,932
Class 4 National Insurance contributions at 3.25% ((120,000-50,270)*3.25%)/ (99,116-50,270)*3.25%)	2,266	1,587
Total Class 4 National Insurance contributions	**6,198**	**5,519**
Total Tax and National Insurance liability	**45,794**	**32,761**

(W5) Remi's trading profits:

	£
Profits without employing Heidi	120,000
Less costs of employing Heidi	(20,884)
Add capital cost of laptop	580
Less AIA on laptop	(580)
Profits if Heidi is employed	**99,116**

2. Compliance requirements

On or before the monthly payment date, the business will have to calculate pay and deduct tax and NI, produce a payslip and report the pay and deductions on a full payment submission (FPS).

Any amounts owed to HMRC must be paid by the 22nd of the following month (19th if not paid electronically).

As the payments will be less than £1,500 per month, the business has the option to make payments on a quarterly, rather than a monthly, basis.

The taxable benefits provided to Heidi can either be payrolled, resulting in tax and NI being deducted every month or can be included on a P11D on an annual basis. If they are included on a P11D, HMRC will likely adjust Heidi's tax code for the following year to take into account the benefits.

The business will have to provide Heidi with a P60 by 31 May following the end of the tax year. This provides details of taxable earnings and deductions as well as information about the employer.
If the taxable benefits are payrolled, it will also include a description of the benefits.

If the taxable benefits have not been payrolled, a P11D will need to be completed and sent to HMRC by 6 July following the end of the tax year. A copy of this is also send to the employee by the same date.

The payment of class 1A NI is due by 22 July (19th if not paid electronically) following the end of the tax year.

MARKING GUIDE

TOPIC	MARKS
Calculation of net cost of employing Heidi	
Additional cost of employing Heidi	
Salary and private medical	0.5
Phone and laptop	0.5
Pension contribution	0.5
Mileage	0.5
Payroll costs	0.5
Employers class 1 NI	1
Employers class 1A NI	1
Calculation of trading profit	1
Calculation of tax without employing Heidi*	1.5
Calculation of tax including Heidi's employment*	1
Tax savings*	0.5
Net cost	0.5
PAYE requirements	
Requirement to calculate pay, deduct tax and NI, produce payslip and report on FPS on or before payment date	1
Monthly payment due date	0.5
Quarterly payment option (condition and implication)	1
Tax benefits, payrolled v P11D	1
P60 – deadline and content	1
P11D due date and recipients	1
Class 1A payment date	0.5
TOTAL	15

*credit awarded for alternative approach to tax savings calculation. Class 2 National Insurance not required to score full marks but included for completeness.

ANSWER 3

1. Trading requirement and qualifying status of options

One of the conditions which must be met for an EMI option to be qualifying is that the company must exist **wholly** for the purposes of carrying on a "qualifying trade" in the UK and be carrying on that trade or preparing to do so.

The trade carried on must be conducted on a commercial basis and with a view to the realisation of profits and must not, to any substantial extent, include the carrying on of excluded activities.

As a matter of HMRC practice, the threshold at which an activity is treated as "substantial" is 20% of the activity of the company in question. There is no fixed metric for measuring the activity of the company, but tests such as the number of employees engaged in a specific activity or an activity's contribution to a company's turnover are typically used.

Any activities which "have no significant effect" on the company's activities can be disregarded, as can the holding of property for the purposes of the trade.

If the company ceases to be a qualifying company this will give rise to a 'disqualifying event'.

Option 1 – If the property is disposed of and is not used in any other way prior to sale, this is not likely to constitute an "activity" of any kind and therefore the company is likely to remain wholly a trading company and the options will remain qualifying options.

Option 2 – If the property is retained and rented out to a third party, this will not be a trading activity. Given the scale of the forecast income arising from the letting of the property, this is not likely to be regarded as having "no significant effect" on the company's activities. As such, this is likely to be treated as a disqualifying event from the time when the property begins to be rented out.

Option 3 – Property development, although a trade, is specifically excluded from being a "qualifying trade". If the company applies for planning permission to develop the flats, although not determinative, it is likely to have an "intention to trade" at that time (especially in view of John's stated intentions for the building) and the land would likely become trading stock. It is likely therefore that the company will then be carrying on excluded activities to a substantial extent. As this new trade will also not have "no significant effect" on the company's activities, this would also be a disqualifying event from the time that the trade commences.

2. Income tax and CGT implications of renting out old premises

Option 1 – 30 June 2023 exercise:

As the option exercise takes place within 90 days of a disqualifying event, the EMI advantages are preserved.

	£
Value of shares at grant (£65 x 100)	6,500
Amount paid by Bill (£0.01 x 100)	(1)
Income gain on exercise	6,499

The CGT base cost of the shares going forward would be equal to the market value at grant above, £6,500.

Option 2 – 30 June 2026 exercise:

As the option has been exercised more than 90 days after a disqualifying event, the taxable income gain at the date of exercise will be as above plus the increase in value between the date of the disqualifying event and the option exercise.

	£
Income gain above	6,499
Increase in value between disqualifying event and exercise ((£140 - £85) x 100)	5,500
Income gain on exercise	11,999

The CGT base cost of the shares going forward would be the amount paid by Bill on exercise (£1), plus the amount charged to income tax (£11,999), so £12,000.

3. <u>PAYE, NIC and CT implications</u>

A corporation tax deduction will be available to the company in the accounting period in which the options are exercised, equal to the difference between the market value of the shares at the exercise of the option (£8,500 or £14,000) and the consideration given by Bill to acquire the shares (£1).

As the company's shares are not listed on a recognised stock exchange, there are no other trading arrangements in place and the company is entitled to a corporation tax deduction in respect of the shares, then the shares will not be "readily convertible assets" and therefore no PAYE or employer's Class 1 NIC should arise on the exercise of the share options, whether this arises whilst they are still EMI-qualifying options, or not.

MARKING GUIDE

TOPIC	MARKS
Part 1 – Qualifying status	
Wholly for purposes of qualifying trade	½
Excluded activities to a substantial extent	1½
No significant effect/property holding disregarded	1
Disqualifying event	½
Option 1	1
Option 2	1
Option 3	1½
Part 2 – Income tax/CGT	
Option 1	
Preservation of status	½
Calculation	1
Base cost	½
Option 2	
Implications	1
Calculation	1
Base cost	1
Part 3 – PAYE/NIC/CT	
Readily convertible assets and conclusion	2
Corporation tax deduction	1
TOTAL	**15**

ANSWER 4

1. Capital allowances available

Plant and machinery allowances		Notes	General pool £	Special rate pool £	Private use %	Allowances £
WDV b/f			17,000	23,000		
Disposal proceeds		1	(15,000)			
FYA						
Electric car	45,000	9			40%	27,000
AIA						
Air source heating system	34,000					
Private (25%)	(8,500)					
	25,500	2				
Pictures	4,000	4				
Electrical and plumbing work	6,700	7				
Lift	5,000	8				41,200
Employee car		5		18,000		
			2,000	41,000		
WDA 18%/6% x 18/12			(540)	(3,690)		4,230
WDV c/f			£1,460	£37,310		
Total plant and machinery allowances						£72,430

Notes

1) Disposal proceeds are restricted to cost.
2) The air source heating system is also used for personal purposes so relief is restricted.
3) Wood panelling is not qualifying expenditure. (*J D Wetherspoon plc v Revenue and Customs Commissioners* [2012] UKUT 42 (TCC)).
4) Only 80% of the pictures are qualifying expenditure (*Wimpy International Ltd v Warland and Associated Restaurants Ltd v Warland* [1988] 61 TC 51) The pictures in the offices are part of the setting and not plant and machinery.
5) The employee car has CO_2 emissions of over 50 g/km and is therefore a special rate item. No private use restriction is necessary as it is used by an employee (who will have a taxable employment benefit).
6) The legal and planning costs for the conversion do not qualify for allowances. The demolition and construction costs qualify for structures and buildings allowance.
7) The electrical and plumbing work qualifies for annual investment allowance.
8) The balance on the lift does not qualify as it is to be paid after more than 4 months.
9) As the car is being bought under a hire purchase contract the total cost is eligible for FYA (subject to private use restriction)

Structures and buildings allowances		£
Demolition costs		4,500
Construction costs		63,000
		67,500
Allowance 3% x 2/12		338
Allowances on extension	3% x £200,000	9,000
Total structures and buildings allowance		£9,338

2. Capital allowances implications of purchase of Woodside and sale of Moorside

Purchase of Woodside

Allron Ltd and Megan should agree an amount for fixtures and complete an election under s.198 CAA 2001 in respect of assets where a capital allowance claim could have been made. If they cannot agree then Megan will have to apply to the First Tier Tribunal to ratify an apportionment.
Allron will also need to confirm that expenditure on the fittings has been pooled.
The amount then allocated to the fixtures for Woodside will be allocated to Meghan's special rate or general pool as relevant. Annual investment allowance will be available.

If there are fixtures at Woodside on which allowances have not been claimed by Allron as the cost was incurred pre-April 2008, then Megan will need to evidence the value of those assets.

Sale of Moorside

If Megan sells Moorside then the structures and building allowances that she can claim will be time apportioned for the accounting period to the date of sale.

The balance of the allowances will pass to the buyer. Megan will have to provide the buyer with an allowance statement setting out the date of the contract for construction, the amount of the qualifying expenditure and the date that the building was first brought into use.

The sales proceeds paid for the building are not relevant. The allowances claimed will be added to the sales proceeds before the gain or loss is calculated, effectively being clawed back.

'The values agreed for plant and machinery, including fixtures, in Moorside will be deducted from the general and special rate pools for Megan as relevant, where capital allowances have been claimed. Proceeds will be restricted to cost where appropriate and the allowances claimed by Megan will be reduced as a result.

MARKING GUIDE

TOPIC	MARKS
Part 1 – Capital allowances	
Plant and machinery allowances:	
Restriction of sales proceeds to cost	½
Electric car: eligible for FYA and private use restriction	1
Air source heating: eligible for AIA and private use restriction	1
Wood panelling – not allowable	½
Pictures: identifying eligible for allowances and restriction	1
Employee car: special rate and no private use	1
Lift – only deposit due to four month payment terms	½
WDA rates and time apportionment	1½
Structures and buildings allowances:	
Legal and planning not eligible	½
Electrical and plumbing costs eligible for AIA	½
Demolition and construction costs eligible	½
Inclusion of existing claim	½
SBA and apportionment	1
Part 2 - Purchase and sale of property	
Completion of s.198 CAA 2001 and confirmation of pooling	1
Allocation to pools and claim AIA	1
Pre April 2008 assets based on apportionment of cost	1
Apportionment of SBA between buyer and seller	1
No impact on sales proceeds	½
Deduction of amounts agreed with buyer from relevant pools	½
TOTAL	15

ANSWER 5

1. CGT on incorporation

If James incorporates his business, then the assets will be transferred to the company. This will be deemed to be at market value, regardless of the value actually used, as the company is “connected” to James.

In the absence of any relieving provisions, the following capital gains would arise:

	Market value (£)	Cost (£)	Gain (£)
Land and buildings	500,000	300,000	200,000
Goodwill	465,500	-	465,500
			665,500

Plant and machinery (where transferred below cost), stock, debtors and cash are not chargeable assets for CGT purposes.

If the business and all its assets, or all except cash, are transferred to the company in exchange for shares in the company, “incorporation relief” would apply automatically. It is possible to elect to disapply this relief where this would be advantageous, such as where James wished to crystallise his entitlement to other reliefs or allowances.

The current market value of the company is £900,000.

The total gains arising on the transfer are £665,500. If the entire consideration for the transfer is shares in the company, then the entire gain of £665,500 would be deferred into the base cost of the shares received. For example, if all of the assets and liabilities are effectively transferred to the company, the company would likely issue 900,000 £1 shares. The tax base cost of the shares would be reduced to £234,500. This would avoid any immediate CGT liability.

Where any consideration is received in cash (whether immediately or on loan account), this will restrict the level of the gain which may be rolled over and a proportion of the gain will therefore be chargeable immediately. If the entire consideration is receivable in cash, all the gain will be immediately chargeable. The consideration split could be calculated to take advantage of his CGT annual exemption.

As James has carried on the trade for more than two years, the gain on the land and buildings would qualify for BADR at 10%. Gains on goodwill arising on incorporation cannot qualify for BADR where the transferor will hold more than 5% of the company’s shares, so would be charged at 20%. Where incorporation relief is partly available, this should be apportioned between the two gains.

The company’s base cost for the chargeable assets would be their market value at the date of transfer. This will reduce any gain arising on a future disposal of the assets by the company.

2. <u>Income tax liabilities of James and Betty</u>

Sole trader

	James £	Betty £
Profits from sole trade	115,000	
Employment income		25,000
Interest income	2,500	
Dividend income	15,000	
	132,500	25,000
Personal allowance	-	(12,570)
		12,430
Income tax liability:		
£37,700 @ 20%	7,540	
£77,300 @ 40%	30,920	
£500 @ 0% (PSA)	-	
£2,000 @ 40%	800	
£2,000 @ 0% (dividend allowance)	-	
£13,000 @ 33.75%	4,387	
£12,430 @ 20%		2,486
Total liability	43,647	2,486

Incorporation:

If tax adjusted profits are £115,000, the corporation tax liability will be:

	£
Corporation tax at 25%	28,750
Marginal relief ((250,000 – 115,000) x 3/200)	2,025
	26,725

This leaves £88,275 to be distributed. As the shares are split equally, each would receive dividend income of £44,137.

James's income tax liability would then be:

	£ Savings	£ Dividends
Interest income	2,500	
Dividend income – portfolio		15,000
– company		44,137
	2,500	59,137
Personal allowance (1)		(12,570)
	2,500	46,567
Income tax liability:		
£500 @ 0% (PSA)	-	
£2,000 @ 0% (starting rate)	-	
£2,000 @ 0% (dividend allowance)		-
£33,200 @ 8.75%		2,905
£11,367 @ 33.75%		3,836
	-	6,741

(1) The personal allowance should be claimed against the dividend income, as the savings income is already covered in full by the various 0% tax rates, so it would save no tax.

Betty's income tax liability would be:

	£ Non-Savings	£ Dividends
Employment income	25,000	
Dividend income		44,137
	25,000	44,137
Personal allowance	(12,570)	
	12,430	44,137
Income tax liability:		
£12,430 @ 20%	2,486	
£2,000 @ 0% (dividend allowance)		-
£23,270 @ 8.75%		2,036
£18,867 @ 33.75%		6,368
	2,486	8,404

Total income tax liability - £10,890

Total tax liabilities (including corporation tax) are now £44,356. This is a reduction on the non-incorporation position, which is £46,133.

MARKING GUIDE

TOPIC	MARKS
Part 1 – Incorporation	
Use of market value	½
Chargeable assets and gains arising	1½
Incorporation relief	2½
Deferral and example	1
Cash element of consideration	1½
BADR	2
Base cost of assets	1
Part 2 – Income tax liabilities	
Calculation of liabilities as sole trader	3½
Calculation of CT and distributable profits	1½
James's liability	3
Betty's liability	1
Improved position	1
TOTAL	**20**

ANSWER 6

1. Explanation of basis periods

Gustav will cease trading as a furniture retailer in the 2022/23 tax year. This means that his penultimate tax year of trading is 2021/22. The period of accounts assessed in 2021/22 will be the year ended 30 April 2021. This means that the assessment for 2022/23, will be based on the period from 1 May 2021 to 30 September 2022 – a period of 17 months.

As Gustav started trading in 1991, he will have transitional overlap relief. On the change to current year basis, Gerhard would have been assessed on the year to 30 April 1997 in 1997/98 and so 11/12 of this profit will be available for relief on cessation. The overlap profit is the profit before capital allowances.

For the art gallery, Gustav will be assessed in 2022/23 on the accounting profits for the year ended 30 April 2022.

From 2023/24, Gustav will be assessed only on profits from the art gallery. From 2024/25, he will be assessed on the tax year basis – i.e. those profits arising in the year ended 5 April 2025. 2023/24 will be a transitional year where the basis of assessment switches over from the current year basis to the tax year basis. He will be assessed on the profits for the 12 months from the basis period for 2022/23: 12 months ended 30 April 2023 and also for the 11 months to the end of the tax year on 5 April 2024. Any overlap profits brought forward would be deducted. There are provisions to spread the additional profits over up to five years.

2. Adjustment to profit and NICs

	£	£
Profit per draft accounts		39,800
Sales value of furniture taken		4,000
Redundancy pay	17,000	
Allowable 4 x £3,300	(13,200)	3,800
Removal of partition walls		6,000
Professional fees re shop closure		1,500
Depreciation		16,800
Loss on disposal		4,900
		76,800
Capital allowances	Working	(1,800)
Tax adjusted profit for the period		75,000

Working - Capital allowances

	General pool	Special rate pool
	£	£
WDV b/f	7,000	4,800
Sales proceeds	(10,000)	
Balancing (allowance) / charge	3,000	(4,800)

National insurance – 2022/23

	£
Class 2 NIC	
Payable at £3.15 pw	163
Due date 31 January 2024	
Class 4 NIC	
Furniture shop profits	
y/e 30 April 2022	47,000
p/e 30 September 2022	75,000
Art gallery profits	
y/e 30 April 2022	27,000
Total	149,000
£50,270 - £11,908 x 10.25%	3,932
£149,000 – £50,270 x 3.25%	3,208
	£7,140

MARKING GUIDE

TOPIC	MARKS
Explanation of basis periods	
Identification of correct tax year of cessation	½
Identification of profits taxed 2022/23	1
Identification of transitional overlap relief and amount	2
Noting relief is profits before capital allowances	1
Basis period for art gallery in 2022/23	½
Basis period for art gallery in 2024/25	½
2023/24 – assessment of year ended 30 April 2023	½
2023/24 – inclusion of 11 months to 5 April 2024	1
Deduction of any overlap profits	½
Availability of spreading for transitional profits	½
SUB TOTAL	8
Calculation of tax adjusted profit	
Adjustment for stock taken	½
Adjustment for redundancy pay	1
Adjustment for partition walls	½
Adjustment for legal and professional costs	½
Adjustment for depreciation and loss on sale	1
Deduction of capital allowances	½
Calculation of balancing allowance and charge	1
SUB TOTAL	5
Calculation of National Insurance contributions	
Calculation of Class 2 NIC	½
Identification of furniture shop profits	½
Inclusion of art gallery profits	½
Calculation of Class 4 NIC	½
SUB TOTAL	2
TOTAL	15