Chartered Institute of Taxation

Excellence in Taxation

The Chartered Tax Adviser Examination

November 2020

Taxation of Owner-Managed Businesses

Advanced Technical Paper

Suggested Solutions

ANSWER 1

Capital Allowances

1. Electric car: first year allowances cannot be claimed for items acquired in the final accounting period. This is an addition to and disposal from the main pool. There is no private use adjustment for company employees.

2. Lighting is an integral feature and is added to the special rate pool.

3. The car is a special rate asset based on its CO2 emissions and date of acquisition. The deduction from the special rate pool should be the proceeds received for the sale.

4. As the qualifying activity has been permanently discontinued, disposal proceeds equal to the market value of the plant and machinery at the date of cessation are brought into account.

5. The balancing adjustments are calculated as normal - tax written down value plus additions less disposals (including the deemed disposal proceeds).

	General Pool	**Special Rate Pool**	**Total**
	£	£	£
TWDV b/f	120,000	28,000	
Addition Electric Car	30,000		
Proceeds Electric Car	(22,000)		
Lighting		3,000	
Proceeds High CO2 car		(5,000)	
Deemed Proceeds on Cessation	(102,000)	(14,000)	
Balancing Allowance	26,000	12,000	38,000
TWDV c/f	Nil	Nil	

Losses

Trading losses arise in the periods ended 30 June 2019 and 28 February 2020.

Period ended 30 June 2019

The losses of £210,000 for the accounting period ended 30 June 2019 will be relieved partly under the normal rules and partly under the terminal loss rules. Terminal losses are those incurred in the final 12 months of trading. The terminal losses in the year to 30 June 2019 must be relieved before those of the later period.

The loss must be relieved firstly against 'total profits' of the same accounting period (£20,000). Total profits' means all profits before any qualifying charitable donations.

The remaining loss of £190,000 consists of a terminal loss of £70,000 (see below) and a non-terminal loss of £120,000. The £120,000 can be carried back against the total profits in the previous twelve months (£115,000).
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As 4 months of the period ended 30 June 2019 fall within the final 12 months of trading, 4/12ths of £210,000 = £70,000 is a terminal loss. This can be carried back to any accounting periods falling wholly or partly within the three-year period ending prior to 1 July 2018 - so from 1 July 2015 onwards.
The amount to be carried back is the lower of the terminal loss or the amount of profit left unrelieved.

The entire £70,000 terminal loss carried back from 30 June 2019 is utilised in the period ended 30 June 2017. £5,000 of the loss will be unutilised.

Period ended 28 February 2020

The total loss for the accounting period ended 28 February 2020 is £170,000. including capital allowances.
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These losses must firstly be set against total profits of the same period of £24,000.

The remaining losses of £146,000 are all terminal losses incurred in the final 12 months of trading.

These can be carried back into any accounting periods falling wholly or partly in the three-year period ending immediately prior to 1 July 2019 - so from 1 July 2016 onwards.

The first period losses can be set against is the period ended 30 June 2017, and profits can be sheltered in full.

As the year ended 30 September 2016 falls partly within the three-year period ending 30 June 2019, a proportion of these profits can also be relieved by the terminal loss.

The apportionment to calculate the relievable profit is 3/12 of £272,000 = £68,000.

There are unrelieved profits in the year to 30 September 2016 therefore the charitable donations may be deducted. In the other years, the tax benefit of the charitable donations will be lost.

As the losses cannot be fully utilised the remaining £13,000 will be lost.

How profits are relieved

	30/9/2016 £	30/06/2017 £	30/06/2018 £	30/06/2019 £	28/2/2020 £
Profit	272,000	135,000	115,000	20,000	24,000
Trading loss relief current year					(24,000)
Trading loss relief current year				(20,000)	
12 month carry back from 30 June 2019			(115,000)		
Terminal loss relief from 30 June 2019		(70,000)			
Terminal loss relief from 28 February 2020		(65,000)			
Terminal loss relief from 28 February 2020	(68,000)				
Less: charitable donation	(5,000)				
Unrelieved profit	199,000	nil	nil	nil	nil
Unrelieved charitable donations	nil	5,000	5,000	2,500	

Loss memorandum:		**£**
Loss in year ended 30 June 2019		**210,000**
less relief in 30 June 2019	(20,000)	
less relief in 30 June 2018	(115,000)	
less relief in 30 June 2017	(70,000)	
		(205,000)
Loss remaining unrelieved		5,000
Loss in period ended 28 February 2020		**170,000**
less relief in 28 February 2020	(24,000)	
less relief in 30 June 2017	(65,000)	
less relief in 30 September 2016	(68,000)	
		(157,000)
Loss remaining unrelieved		13,000

Post Cessation receipts and expenses

Where there is a cessation of trade, the accounts to cessation prepared on an accruals basis will normally include all income and expenses, including sums which are unpaid at the cessation date. In certain circumstances income can arise post cessation which is not included in the accounts, resulting in a tax charge. Such receipts can be relieved against post cessation expenses, provided these are of the kind which would have been allowed had the trade continued.

1. The payment from the trade customer is not a post cessation receipt. The sale will have already been included in the accounts to cessation which are prepared on the accruals basis.

2. Any expense not allowable as a trade expense is not allowed as a post cessation expense. Fines are not an allowable trade expense.

3. The cost of remedial work £5,000, is a post cessation expense.

4. The debt released is treated as a post cessation receipt. The post cessation expense can be deducted from the post cessation receipt. The company can elect to treat the surplus receipts as received in the period to cessation, thus utilising some of the remaining losses.

MARKING GUIDE

TOPIC	MARKS
Capital Allowances:	
Electric car: addition/disposal from main pool	1
No private use adjustments for employee	0.5
Lighting added to Special Rate pool	0.5
This is a High CO2 car. Disposal will be from Special Rate pool	1
Deemed disposal at market Value	1
Calculation of Balancing allowances	1
Loss Calculation:	
Losses 30 June 2019 normal loss rules/terminal loss rules	0.5
Terminal losses those incurred in last 12 months	0.5
Earlier period before later period	0.5
s37(3)(a) current year first	0.5
Total profits before qualifying donations	0.5
s37(3)(b) previous 12 months	0.5
Terminal loss calculation for 30 June 2019	1
Identify carry back period under s39	0.5
Lower of loss or amount unrelieved	0.5
Relief 30 June 2017	1
Terminal loss fully utilized. Balance of loss unrelieved	1
2020 total loss £170,000	0.5
s37(3)(a) current year first	0.5
Remaining £146,000 terminal loss	0.5
28 February 2020 identify carry back period	0.5
Losses relievable in Y/E 30 June 2017 Relievable profit apportionment	1
Unrelieved profits 30 September 2016. Deduct charitable donation	1
Loss memorandum	1
Post Cessation:	

Late payment not post cessation receipt	0.5
Fine not post cessation expense	0.5
Remedying defective work - post cessation expense	0.5
Debt write off - post cessation receipt	0.5
Set off deduction against receipt. Election to carry back surplus receipt	1
TOTAL	**20**

ANSWER 2

Tax Advisers Ltd
Any Street
Anytown

Ravi Sharma
Any Farm
Any Village

Date

Dear Ravi

LAND TRANSACTIONS

Further to our recent meeting, I am writing to set out my thoughts on the land transactions which you outlined.

Sale of partnership interest and scrubland to James

The sale of your partnership interest qualifies for entrepreneurs' relief and so tax would be due at 10% and a claim made before 31 January 2022. As you have disposed of your entire interest in the partnership, you have made a material disposal of a business asset.

The gain on the woodland will be calculated by taking the original cost of the land from the sales proceeds. You have owned more than 5% of the business for 3 out of the 8 years prior to disposal of the woodland and have disposed of your entire partnership interest and so the gain is treated as an associated disposal and entrepreneurs' relief is due. As rent has been charged for the woodland, the relief will be restricted by the proportion of the rent to a commercial rent. The gain will also need to be apportioned for the non-business use of the woodland between June 2013 and July 2014.

Sale of outbuildings

The disposal of the outbuildings qualifies as a material disposal because they were used in the business at the date of cessation and the business had been owned for the then requirement of at least one year. Because the business cessation took place less than 3 years before the disposal of the property, even though the property was rented out, it will qualify for entrepreneurs' relief and therefore tax will be due at 10%.

Transfer of field to trading stock

The field was held as a fixed asset by you as a farmer. The transfer of the field to the property development business is treated as being acquired at market value for the purposes of the trading profits. You are also treated as making a disposal for Capital Gains Tax purposes at market value. The purchase cost and planning fees are deductible in calculating the gain. No entrepreneurs' relief would be available on the disposal, as it is the disposal of an asset rather than a business and so tax would be due at 10/20% depending on your other income.

However, an election could be made under s161(3) TCGA 1992 for there to be no chargeable gain. Instead, the market value included in the profit calculation is reduced by the chargeable gain. The effect of the election would be to convert a capital gain into a profit subject to income tax and national insurance, so it would be only suitable in limited circumstances.

Availability of entrepreneurs' relief

There is a lifetime limit of £10m for entrepreneurs' relief. Part of this has been used by the disposal in 2012 which realised a gain of £9.8m. However, the gain in 2005 is not counted as it took place before 5 April 2008. Any excess over £10m is taxed at 10/20% dependent on income.

I hope that the above is clear and I look forward to discussing this when you have had a chance to consider the points raised.

Yours sincerely

A Taxadviser

MARKING GUIDE

TOPIC	MARKS
Format for a letter	1
Sale of partnership interest and woodland	
Identifying gain on partnership interest qualifies for entrepreneurs' relief	½
Resultant rate of tax	½
Time limit for claim	½
Reason why the gain qualifies for entrepreneurs' relief	½
Calculation of gain on woodland	½
Reason why the gain qualifies for entrepreneurs' relief:	1
Because owned more than 5% for 3 out of 8 years	1
And it was the disposal of his entire interest	½
Restriction of entrepreneurs' relief due to rent	½
How the restriction in calculated	½
Restriction for non-business use	1
Sub total	7
Sale of outbuildings	
Identification as a material disposal	½
Additionally, that was used in the business at cessation	½
And ownership period	½
Identifying that disposal is within 3 years	½
And that rent does not restrict this gain	1
Sub total	3
Transfer of asset to trading stock	
Current treatment of land	½
Treatment of transfer in trading statement	½
Identification of capital gain at market value	½
Identification of deductible costs	½
Identification that the gain doesn't qualify for entrepreneurs' relief	½
Reason why entrepreneurs' relief no available	½
Consequent taxation of gain	½
Possibility of claim under s161(3) TCGA 1992	1
What a claim involves	1
Effect of the election	½
Identification that limited circumstances	½
Profit would be income and not capital gain	½
Sub total	7
Lifetime limit for entrepreneurs' relief	
Identification of lifetime limit	½
Noting that part used by 2012 gain	½
Noting that gain pre-5 April 2008 not relevant	½
Application to question	½
Sub total	2
TOTAL	**20**

ANSWER 3

HEADED NOTEPAPER

Mrs M Costa
1 High Street
Bolton
BT1 1AB

6 May 2020

Dear Mrs Costa

Further to our conversation regarding the potential warranty claim raised by the purchaser of the shares in Aurora Enterprises Ltd ("the company"), I have set out below the tax implications should HMRC's valuation prove to be correct.

Valuation

HMRC are contending that, at the date of grant of the options, the shares each had a market value of £3,000, a total of £300,000 of shares under option, rather than the £1,750 per share calculated by the company.

EMI share options

The share option granted over 100 shares was notified to HMRC as being EMI-qualifying share options. However, under the EMI scheme rules, options can only be granted over shares with a maximum value of £250,000.

If HMRC's valuation of the options is correct, only part of the option (over 83 shares) will qualify as an EMI option, a total value at grant date of £249,000 (83 x £3,000). The balance (over 17 shares) will therefore be unapproved. The tax implications of this are outlined further below.

Bill has only paid £1,750 for each share on exercise and therefore the options would have been granted at a discount of £1,250 per share to their market value of £3,000 per share. When EMI options are issued at a discount, the difference between the market value at the date of issue and the amount paid should be charged to income tax. When the options were exercised, a total of £103,750 (83 x £1,250) therefore ought to have been charged to income tax.

As the share option was exercised as part of a sale of the company, the shares are readily convertible assets ("RCAs"). As a result, PAYE and both classes of Class 1 NIC should have been applied to the discount above. As Bill is an additional rate taxpayer, the PAYE at 45% would be approximately £46,687. Employee's Class 1 NIC at 2% would be approximately £2,075 and the employer's Class 1 NIC at 13.8% would be £14,317. All of the above would have been due to be paid to HMRC by 19 May 2020 based on an exercise in April 2020.

The employer's Class 1 NIC would be deductible for the company in its corporation tax computation.

Bill should reimburse the company for the PAYE and employee's Class 1 NIC which it will pay on his behalf within 90 days of the end of the 2020/21 tax year (4 July 2021). If he does not make this reimbursement, the amount not recovered must be reported on a Form P11D. This would then also be subject to additional Class 1 NIC for the company.

Unapproved share options

As noted above, the option over 17 of the shares would now be classified as an unapproved share option.

Where share options are unapproved, a charge to income tax again arises at the point of exercise of the option. However, this charge is based on the difference between the market value at exercise (£6,000) and the exercise price (£1,750). This gives rise to total taxable income of £72,250 (17 x £4,250).

As above, this income should have been subject to PAYE and both classes of Class 1 NIC, as the shares received were RCAs. PAYE at 45% is £32,512, employee's Class 1 NIC at 2% is £1,445 and employer's NIC at 13.8% is £9,970. The employer's Class 1 NIC will be deductible for the company. Bill should repay the relevant amounts to the company by 4 July 2021, as previously indicated, to avoid further employment income arising.

Corporate tax deduction on exercise

The company will receive a corporation tax deduction based on the difference between the market value of each share at exercise (£6,000) and the amount paid for each share (£1,750). However, this will be the same whether HMRC's or the company's valuation of the shares at grant is correct.

Summary

If HMRC's valuation is correct, employment income of £176,000 would have arisen. This employment income would attract total PAYE of approximately £79,199 and total employee's Class 1 NIC of £3,520, both ultimately payable by Bill, and total employer's Class 1 NIC of £24,287, payable by the company.

Bill will need to reimburse his liabilities to the company by 4 July 2021 to avoid further tax charges arising.

The company would have to pay an additional £24,287, but would obtain corporation tax relief for this amount.

Potential penalty position

If HMRC identify that additional PAYE and NIC should have been paid by the company in respect of the EMI scheme, they may seek to charge a penalty on the basis that the company has submitted an incorrect FPS return. This penalty would be a percentage of the additional PAYE and NIC due.

As the company has not acted deliberately in understating its PAYE and NIC liability, but also appears to have failed to take reasonable care in obtaining a professional share valuation, it is likely that HMRC would seek to charge a penalty for "careless" behaviour.

The maximum penalty for careless behaviour is 30%, but this can be reduced to 15% based on the level of assistance the company gives to HMRC in determining the amount of the error. The penalty cannot be reduced to 0%, as HMRC have discovered the error themselves. However, a careless penalty can potentially be suspended for up to two years by agreement with HMRC.

Please let me know if you would like to discuss further.

Yours sincerely

Tax Adviser

MARKING GUIDE

TOPIC	MARKS
Part 1 – EMI options	
Format	1
Maximum option value under EMI of £250,000	1
Calculation of 83 qualifying options	1
Remainder are unapproved options	1
Calculation of discount on grant	½
Discount chargeable to IT	1
Identification as RCAs	1
PAYE and C1 NIC applicable	1
Tax calculations	1½
Due date for payment	½
Employer’s C1 deductible for company	½
Reimbursement of PAYE and NIC, and date	1
Implications if not reimbursed	1
Unapproved option exercise implications	2
Calculation of liabilities	1½
CT deduction will remain the same	1
Summary of total additional tax and NIC due	1
Sub total	17
Part 2 – Penalty position	
Percentage of additional tax due	½
Likely to be careless behaviour	1
Maximum penalty and potential reduction	1
Potential for suspension	½
Sub total	3
TOTAL	**20**

ANSWER 4

Adjusted profits

Profit adjustment:

	£	£	Notes
Profit per accounts		72,953	
Add:			
Personal pension contributions	3,200		
Delayed employer contribution	1,250		1
Rent paid, private proportion (1/3)	3,600		
Council tax on flat	875		
Lease premium disallowed proportion	43,770		2
Renovation of ground floor	24,000		3
Decoration of flat	800		
Lease agreement	1,100		4
Loan interest non-business proportion (1/3)	200		
Depreciation	4,750		
Loss on sale	1,400		
Gym membership private apportionment	600		5
		85,545	
		158,498	
Less:			
Ex gratia payment from charity	450		6
Rent received	4,500		
Mileage allowance (4800 x 45p)	2,160		7
Capital allowances	21,538		
		(28,648)	
Tax adjusted profit		£129,850	

Notes:

1) The employer pension contribution is only allowable if actually paid in the year.

2) The allowable proportion of the lease premium is calculated as:

	£
Premium paid	45,000
Residential proportion (1/3)	(15,000)
Business proportion	30,000
Subject to income tax on landlord £30,000 x (50 – 9) / 50	24,600
Monthly allowance spread over the term of the lease (120 months)	205

Note:
Alternative calculation of lease premium.

Premium	£30,000
Less; 2% x 30,000 x (10-1)	(5,400)
Total	24,600

The disallowance in 2019/20 is therefore £43,770 (£45,000 less six months at £205).

3) The renovation expenditure will be treated as capital as it was incurred in order to put the property into a condition suitable for use (*Law Shipping Co v* IRC).
The dilapidation charge will be allowed in full as this relates to revenue expenditure.

4) As this is a new lease then the costs will be disallowed.

5) The proportion of the cost attributable to Pippa will be disallowed. There is no requirement to impute a market value adjustment.

6) The ex-gratia receipt is unsolicited and therefore not part of taxable turnover.

7) Under s.94D ITTOIA 2005 Pippa would claim an allowable business mileage of 45p on the first 10,000 miles and 25p thereafter. This is more advantageous than the simple business proportion of the actual costs incurred.

Capital allowances

	General pool	Special rate pool	Claim	Notes
	£	£	£	
WDV b/f	17,000	0		
Additions				
Integral assets		2,600		8
New printers	11,000			
Installation costs (lowering floor)	1,650			9
AIA	(12,650)	(2,600)	15,250	10
New car		23,000		
Electric car	14,000			11
Disposals:				
Laptop gifted to school	(225)			12
Laptop sold at under value	(10)			13
Car disposal	(3,500)			14
	27,265	23,000		
WDA 18%	(4,908)		4,908	
WDA 6%		(1,380)	1,380	
TOTAL			**£21,538**	
WDV c/f	£22,357	£21,620		

8) The new cabling installed in the property will qualify as integral assets.

9) The incidental costs of the installing the printers will be qualify for capital allowances

10) AIA will not apply to the cars.

11) The electric vehicle does not qualify for FYA is it is second hand and it does not qualify for AIA as it is a car.

12) The deemed disposal value of the laptop gifted to the school is the open market value.

13) The disposal value of the laptop sold at undervalue is the sum received as the purchaser will themselves qualify for capital allowances.

14) As a result of the CO_2 emissions the car will have been part of the general pool.

MARKING GUIDE

TOPIC	**MARKS**
Part 1: Profit adjustment	
Pension contribution	½
Delayed employer contribution	1
Private portion of rent paid	½
Council tax	½
Lease premium	1½
Renovation of ground floor	1
Decoration of flat	½
Lease agreement	1
Loan interest non business proportion	1
Gym membership private element	1
Charity payment	1
Rent received	½
Mileage allowance	1
Sub total	11
Part 2: Capital allowances	
Integral assets	½
Installation costs	½
AIA	½
New car	½
Electric car	½
Laptop gifted	½
Laptop sold	½
Car disposal	½
Sub total	**4**
TOTAL	**15**

ANSWER 5

1) Taxable Benefits and agreement with HMRC

Unless any exemptions are available, all of the items would give rise to a taxable benefit, as they are enjoyed by the staff at the expense of the company.

Although the cost of the anniversary staff event does not exceed the exemption threshold of £150 per head, it is not an "annual event" and therefore no exemption is available.

As the cost of the shopping voucher does not exceed £50 per head, is not in cash, and is not a recognition for service, this benefit will be exempt from tax under the "trivial benefits" exemption. As such, it does not need to be included in the PSA.

No exemption is available in relation to long-service awards unless the employee has worked at the company for 20 years.

In order to arrange a PSA, HMRC must be contacted by 6 July 2021, which is the normal filing date of the P11Ds. They should be notified of the expenses which it is proposed that the PSA should cover.

2) Total due to HMRC

The amount due to HMRC for 2020/21 would be £2,110 – payable by 22 October 2021, if paid electronically. This is calculated as shown below.

	Party	LSA	Total	Tax thereon
	£	£	£	£
Benefits (BR taxpayers)	1,800	650	2,450	490
Benefits (HR taxpayers)	1,200	-	1,200	480
			3,650	
Grossed up tax (£490 x (100/80))	612			
Grossed up tax (£480 x (100/60))	800			
Total tax payable	1,412			
Total benefits provided subject to Class 1A NIC (above)	3,650			
Total benefits on which Class 1B NIC payable	5,062			
Class 1B NIC @ 13.8%	698			
Total due (£1,412 + £698) =	£2,110			

Note: Alternative method

BR Taxpayer Benefits £1,800 + £650	£2,450	
Tax 2,450 x 20/80		£612
HR Taxpayer Benefits	£1,200	
Tax 1,200 x 40/60		£800
Totals	£3,650	£1,412

Benefits plus tax = £5,062

MARKING GUIDE

TOPIC	**MARKS**
Part 1 – Agreement of PSA	
General position	1
Annual event exemption not available	1
Trivial benefit of voucher	1
Long service award exemption not available	1
Notification date	½
Notify HMRC of expenses to be included	½
Sub total	5
Part 2 – Amount payable to HMRC	
Quantification of benefits for BR/HR taxpayers	1
Calculation of tax on benefits	1
Grossing up tax due for BR/HR taxpayers	1
Calculation of Class 1B NIC due	1
Calculation of total amount payable	½
Due date of payment	½
Sub total	5
TOTAL	**10**

ANSWER 6

Carol and Rhea's basis periods and taxable profits are as follows:

2018/19		£ Carol	£ Rhea
	1 October 2017 to 30 June 2018		
	9/12 x £12,000	9,000	
	50% period 1 July 2018 to 30 September 2018		
	50% x 3/12 x £12,000		
		1,500	1,500
	50% Six months ended 31 March 2019		
	50% x £8,000	4,000	4,000
	Total	14,500	5,500
	Less overlap relief	(19,733)	
	Net profit/(loss)	(5,233)	5,500
2019/20		£	£
	50% year ended 31 March 2020		
	50% x £32,000	16,000	16,000

Carol's National Insurance liability for 2019/20 is as follows:

Her profits for the purpose of calculating Class 4 contributions are reduced by the s.64 ITA 2007 sideways loss relief claim that would have been made in 2018/19:

	£
Adjusted profit allocation	16,000
Less 2018/19 loss claim	(5,233)
Profit for Class 4 NIC	10,767

Primary Class 1 contributions paid:

	£
£0- £8,632 x 0%	0
£8,632- £50,000 x 12%	4,964.
£50,000- £54,200 x2%	84
	5,048

Calculation of maximum Class 1 and 2 NIC 2019/20:

		£	£
Step 1	53 x upper earnings limit (£962) less lower earnings limit (£166)	42,188	
Step 2	x 12%	5,063	
Step 3	Earnings between Primary Threshold (£8,632) and Upper Earnings Limit (£50,000)	41,368	
Step 4	Step 3 (£41,368) less step 1 (£42,188) If negative treat as zero	0	
Step 5	Step 4 x 2%	0	
Step 6	Earnings (£54,200) in excess of upper earnings limit (£50,000)	4,200	
Step 7	Step 6 x 2%	84	
Step 8	Step 2 (£5,062.56) + Step 5 (£0.00) + Step 7 (£84.00)		5,147

The excess of the above annual maximum over the Class 1 NIC actually paid (£5,048) is £99. As this is less than the maximum Class 2 NIC of £156 then this becomes the reduced Class 2 NIC payable.

Calculation of maximum Class 4 NIC 2019/20:

		£	£
Step 1	Upper profit limit (£50,000) less lower profit limit (£8,632)	41,368	
Step 2	X 9%	3,723	
Step 3	Add 53 x £3 Class 2	159	
			3,882
Step 4	Less primary Class 1 NIC paid (see above)	(5,048)	
	Less Class 2 NIC paid (see above)	(99)	
			(5,147)
			(1,265)
As Step 4 is negative then the Class 4 NIC payable at the main rate will be zero			0
Step 5	Treated as zero as above	0.00	
Step 6	Profits (£10,767) less lower profit limit (£8,632)	2,135.00	
Step 7	Step 6 (£2,135) less Step 5 (£0.00)	2,135.00	
Step 8	Step 7 (£2,135) x 2%		43

The maximum Class 4 NIC payable is given by the sum of:

	£	£
Step 4	0.00	
Step 8	43	
Annual maximum Class 4 NIC		43

Payment of Class 2 and 4 NIC:

The Class 2 NIC liability is payable as part of the balancing payment for 2019/20 due 31 January 2021. It does not form part of the assessable profits and therefore does not impact on the 2020/21 payments on account

The Class 4 NIC liability will be payable 31 January 2021 and as it will be assessed as part of the trading profits then it will impact on the 2020/21 payments on account.

Rhea's NIC liability for 2019/20 is as follows:

As Rhea is over pensionable age throughout 2019/20 she has no Class 2 or Class 4 NIC liability.

MARKING GUIDE

TOPIC	MARKS
Carol's assessable profit 2018/19	1
Rhea's assessable profits 2018/19	½
Deduct overlap relief	1
Calculate 2019/20 profit allocation	½
Class 4 NIC profits reduced by s64. loss	1
Calculate primary Class 1 NIC	1
Show steps to calculate maximum Class 1 and Class 2	2
Calculation of reduced Class 2 NIC	1
Show steps for calculation of maximum Class 4	4
Class 2 liability payable 31 Jan 2021	½
Class 2 not part of assessable profits and no impact on POA	½
Class 4 liability payable 31 Jan 2021	½
Class 4 part of assessable profits and therefore impact on POA	½
Rhea has no NIC liability as she is over pensionable age	1
TOTAL	**15**