

The Chartered Institute of Taxation

AWARENESS

November 2021

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.
 - Except as set out below or indicated by additional information in the question, you may assume that 2020/21 legislation (including rates and allowances) continues to apply for 2021/22 and future years.
 - 1) You **MUST** assume that the UK remains within the European Union.
 - 2) You **MUST** ignore all temporary Covid related legislation including furlough, grants, loans and the reductions in VAT and SDLT rates.
- Except in relation to points 1) and 2) above, 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. Haggon Ltd was incorporated on 18 September 2021. It started to make wholly taxable supplies on 1 October 2021 and registered for VAT with effect from 1 November 2021. Prior to the company's incorporation, a future shareholder paid for accountancy advice relating to the company's trade.

Explain the further information required in order to determine whether Haggon Ltd may recover the input VAT suffered on the accountancy advice.

2. Georgina makes standard-rated supplies. For the quarter ended 31 October 2021, her VAT exclusive sales were £62,000.

In addition, in September 2021, Georgina gave four of her key customers a gift. The cost of each gift was £105. The input VAT on the items was recovered in the quarter ended 31 July 2021.

Georgina's purchases for the quarter were £18,000. This is before taking into account £180 for the purchase of fuel in respect of a car used partly for business purposes. The VAT fuel scale charge for the car for the quarter is £246.

All purchases are inclusive of standard rate VAT.

Calculate the VAT payable to HMRC for the quarter ended 31 October 2021.

3. Peter is a VAT registered trader. He recently opened a holiday park offering short breaks in luxury tents. On arrival at the park, the customer is presented with an invoice showing the cost of the serviced accommodation and a fixed charge for electricity. Peter does not provide any ancillary travel services.

Explain the VAT treatment of the supply made by Peter.

4. Murmodon Ltd provides human resources services.

On 24 October 2021, Murmodon Ltd completed a one-off assignment for Hector. The company issued an invoice on 30 October 2021. Hector paid the invoice on 2 November 2021.

Helen pays Murmodon Ltd a monthly retainer for providing a helpline service to her employees. On 28 October 2021, the company issued an invoice for the month of October 2021. Helen paid the invoice on 3 November 2021.

Explain the tax point of the services provided by Murmodon Ltd to Hector and Helen.

5. During the quarter ended 30 October 2021, Sactuc Ltd suffered the following amounts of input tax in relation to motor vehicles:
- 1) £2,000 on the purchase of a van. Private use of the van was insignificant.
 - 2) £14,000 on the purchase of a car for use by the company's Sales Director. It was used 85% for business purposes.
 - 3) £160 on repairs to the car used by the Sales Director.
 - 4) £280 on monthly payments made under a two-year lease of a car for use by the marketing manager. It was used 40% for business purposes.
 - 5) £40 on hiring of a car for one day to replace the marketing manager's car when it was in the garage. The car was used for business and personal journeys.

Calculate, with explanations, the amount of input VAT the company may recover in respect of the above transactions.

6. Celandi Ltd, which makes wholly standard-rated supplies, joined the cash accounting scheme in 2014. Its business has expanded in recent years, and it is expected to continue to grow in the future. The company's turnover is set out below:

<u>Quarter ended</u>	<u>Turnover</u> £
31 December 2020	355,000
31 March 2021	375,000
30 June 2021	400,000
30 September 2021	460,000
31 December 2021 (estimated)	480,000

Explain:

- 1) **Whether the company will be required to leave the cash accounting scheme on 31 December 2021.**
- 2) **The implications for the company of leaving the cash accounting scheme.**

7. Norzer Ltd was late in submitting the VAT returns and paying the VAT due for the periods below.

<u>Quarter ended</u>	<u>Unpaid VAT</u> £
31 July 2020	18,000
31 January 2021	24,000
30 October 2021	7,700

All other returns and payments were made on time.

Explain, with calculations, the implications for the company of filing the VAT returns late.

8. Tim owns the freehold of a building comprising two floors.

The ground floor is let to Mark, a VAT registered trader, and it is used in Mark's trade of repairing and selling computer equipment. Mark's lease has 10 months to run and he has indicated that he will not be seeking to renew it.

The first floor is let to Susie as residential accommodation.

The building requires significant repairs and Tim has been quoted a price of £60,000 plus VAT.

- 1) **Explain the implications for Tim should he decide to opt to tax the building.**
- 2) **State the deadline by which a person must notify HMRC that an option to tax has been made.**

9. Cameron carries on a trade making standard-rated supplies. On 1 October 2021, Cameron bought plant and machinery, a debtor list and goodwill from a business in administration, paying £80,000 including VAT. At that time, it was thought that the transaction did not meet the conditions for treatment as a transfer of a going concern (TOGC).

Explain the consequences for Cameron if it is later found that the transaction did meet the conditions for treatment as a TOGC.

10. Winstonn Ltd acquired 65% of the Ordinary Share Capital of Agnez Ltd in September 2021. The remaining shares are held by an unconnected individual. Both companies make wholly standard-rated supplies and trade exclusively in the UK.

Explain:

- 1) **Whether the companies meet the conditions to form a VAT group.**
- 2) **The consequences for both companies of forming a VAT group.**

11. Tony will acquire the following shares in the next few days:

<u>Company</u>	<u>Seller</u>	<u>Consideration</u>
Bosmium Ltd	Walter	£ 12,300
Biron Ltd	Imogen	980

- 1) **Calculate, with explanations, the Stamp Duty payable by Tony.**
- 2) **Explain the procedure for having the stock transfer form for each purchase stamped.**

12. On 1 February 2020, Ytali Ltd sold a commercial building to Npais Ltd for its market value of £425,000. At that time, Qrai Ltd held 100% of the share capital of Ytali Ltd and 80% of the share capital of Npais Ltd.

On 1 October 2021, Qrai Ltd sold its entire shareholding in Npais Ltd.

Explain, with calculations, the Stamp Duty Land Tax [Scots – Land and Buildings Transaction Tax] implications of the above events.

Module B: Inheritance Tax, Trusts and 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 8 January 2021, Wendy won £1.5 million on the lottery and subsequently made the following cash gifts:

21 January 2021	£400,000 to her husband, Kevin
14 March 2021	£150,000 to her daughter, Louise
10 April 2021	£500,000 to a discretionary trust for the benefit of her grandchildren
25 April 2021	£200 to each of her six nephews and nieces

Wendy had made no previous lifetime gifts and agreed to pay any tax due on the gifts.

Explain the immediate Inheritance Tax treatment of each gift.

14. John died on 8 November 2018, leaving an estate valued at £2.3 million. His Will stated that a collection of antiques, valued at £1.5 million, be left as a specific tax-free gift to his daughter, Esther. The remainder of John's estate was left to his cousin, Edward. The Inheritance Tax paid by John's executors was £790,000.

Esther, who had never married or made any lifetime gifts, died on 15 July 2021, leaving her entire estate to her son, Tom. Esther's estate comprised of the following assets:

	£
Family home	1,250,000
The antiques inherited from her father	1,850,000
Cash and investments	1,100,000
	<u>£4,200,000</u>

Calculate the Inheritance Tax payable on Esther's estate.

15. Alice died on 8 August 2021. Her only lifetime gift was made on 1 November 2018, when she gifted a property, valued at £650,000, into a discretionary trust for her nephews. Alice had paid the tax due on this transfer.

At the date of Alice's death, the value of the property was £620,000.

Calculate the Inheritance Tax payable by the trustees on Alice's death, assuming any relevant elections are made.

16. Ken, together with his wife and children, own 100% of the shares in Petlip Ltd, an unquoted investment company.

Ken's wife, Joyce, also owns shares in quoted companies and in unit trusts.

Explain the Inheritance Tax valuation rules that apply to:

- 1) **Ken's shares in Petlip Ltd.**
- 2) **Joyce's investments in quoted shares and unit trusts.**

17. On 18 May 2011, William transferred property and cash with a total value of £950,000 into a newly created discretionary trust and agreed to pay the tax due.

William's only previous lifetime gift was a gross chargeable transfer of £100,000 made on 30 March 2009.

On 20 February 2020, the trustees made a capital distribution of £180,000 to one of the beneficiaries, who agreed to pay the tax due.

On 17 May 2021, the value of the discretionary trust assets was £1.35 million.

Calculate the principal charge arising in 2021/22.

18. Herbert died in 2015, leaving his entire estate to his wife, Marge.

Marge died on 20 June 2021, leaving the following assets:

	£
Family home	975,000
Jewellery and chattels	195,000
Investments	250,000
Cash	80,000
	<u>£1,500,000</u>

Marge left the investments to charity and the remainder of her estate to her granddaughter, Lisa.

Neither Herbert nor Marge had made any lifetime gifts.

Calculate the Inheritance Tax payable on Marge's estate.

19. Daniella was born in Portugal on 20 February 1972 to parents who were married to each other and both born and domiciled in Portugal.

Daniella lived in Portugal until 2012 when she moved to the UK for work, but always intended to eventually return to Portugal.

Daniella lived in a penthouse apartment in London, valued at £12 million. The apartment is owned by Dani Lda, a company registered in Portugal and in which Daniella owned 100% of the shares. Dani Lda's only asset is the apartment and it has no liabilities.

Daniella died suddenly on 17 January 2021.

Explain:

- 1) How Daniella's domicile status would be determined for Inheritance Tax purposes in 1972 and 2021.**
- 2) The Inheritance Tax treatment of her 100% holding in Dani Lda.**

20. Patrick had owned 50% of the shares in CDSAF Ltd, a construction company, since 1994. On 14 March 2017, he gifted the shares, which were then worth £750,000, to his daughter, Saoirse.

On 12 August 2019, Saoirse sold the shares in CDSAF Ltd for £780,000, and six months later, reinvested £675,000 in an unincorporated fashion design business.

Patrick died on 5 May 2021. He had made no other lifetime gifts, apart from gifts out of capital of £3,000 every year on 6 April to his brother, Ronan.

Explain the Inheritance Tax treatment of Patrick's gift of the CDSAF Ltd shares to Saoirse during his lifetime and on his death in 2021.

21. Paula is terminally ill and is not expected to live for more than 12 months. She is concerned about the welfare of her 12 year-old daughter, Sophie, and wishes to create a trust for a bereaved minor for Sophie's benefit.

Explain the main features and advantages of a trust for a bereaved minor.

22. Bob died on 16 April 2019, leaving his entire estate to his wife, Beryl. During the period of administration his Personal Representatives had the following income and expenses:

	<u>2019/20</u>
	£
Interest income	19,500
Dividend income	5,400
Estate expenses met from income	(600)

The Personal Representatives made an interim payment of £6,000 to Beryl on 22 December 2019.

The administration of Bob's estate was completed by 6 April 2020 and a final payment was made to Beryl on 10 April 2020.

Calculate:

- 1) **The estate income available for distribution in 2019/20.**
- 2) **The estate income taxable on Beryl in 2019/20 and 2020/21.**

23. In 2015, Betty created an Interest in Possession trust for the equal benefit of her two sons, Peter and Paul. This is the only trust created by Betty.

Since 2005, Peter and Paul have worked for Hoppykins Ltd, an unquoted trading company. Each brother has a 48% shareholding in the company, with the remaining 4% being owned by the trust created by their mother.

In 2020/21, the trustees made the following disposals:

- 1) The sale of a residential property, realising a gain of £12,000.
- 2) The sale of the 4% holding in Hoppykins Ltd, realising a gain of £23,800.

- 1) **Explain why the disposal of the shares in Hoppykins Ltd qualifies for Business Asset Disposal Relief.**
- 2) **Calculate the Capital Gains Tax payable by the trustees for 2020/21.**

24. In 2002, Maureen purchased shares in an unquoted investment company for £440,000. On 15 July 2015, she transferred the shares into a discretionary trust when they were worth £675,000.

Maureen had made no previous lifetime gifts and the trustees paid the Inheritance Tax due on the transfer.

On 30 June 2021, the trustees sold the shares for £992,000.

- 1) **State the date by which Maureen should have made a claim for gift relief on the transfer of the shares into the trust.**
- 2) **Calculate the gain arising on the disposal of the shares by the trustees, assuming all available claims were made.**

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. Stry Ltd had the following tax written down values at 1 April 2020:

	£
Main pool	121,800
Special rate pool	88,450

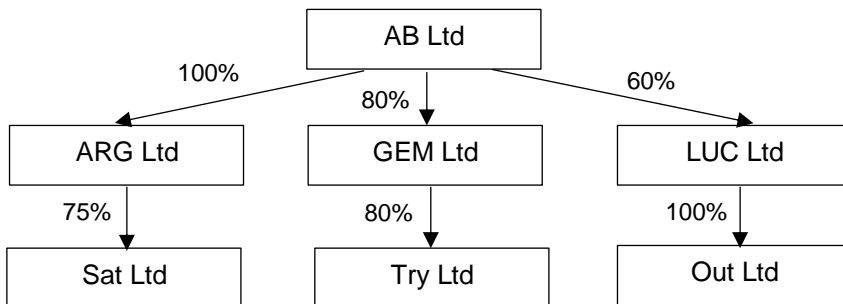
During the year ended 31 March 2021, the company renovated an unused storage block to create additional office space. The costs relating to this were:

	£
Costs to repair roof	16,000
Heating and air conditioning system	12,800
Office furniture and equipment	15,020

Stry Ltd's parent company has claimed the full annual investment allowance.

Calculate the maximum capital allowances available for the year ended 31 March 2021.

26.



The AB Ltd group consists of the above companies which have been owned for many years apart from the shares in ARG Ltd which were purchased on 1 October 2020. All companies make up annual accounts to 31 March each year.

For the year ended 31 March 2021, AB Ltd had Taxable Total Profits of £250,000 and ARG Ltd had a trading loss of £300,000.

- 1) Explain the group relief group(s) that exist.
- 2) Calculate the maximum group relief available to AB Ltd in respect of the trade loss made by ARG Ltd for the year ended 31 March 2021.

27. Forz Ltd had a profit before tax per the accounts for the year ended 30 June 2021 of £145,210 after deducting the following expenses:

	£
Employer pension contributions payable – paid September 2021	9,000
Professional fees on the renewal of a short lease for offices	1,800
Petty thefts from cash by employee discovered during the year	1,070
Lease costs for a car for the Managing Director. The car had CO ₂ emissions of 168g/km and was used 30% for private journeys	6,000

Calculate the taxable trade profits for the year, clearly showing your treatment of each of the above items.

28. Blaur plc sold a freehold factory used in its trade in February 2019 for £500,000 resulting in a chargeable gain of £245,000.

The company made the following purchases using part of the proceeds from the sale:

- 1) 0.5% shareholding in Grunk Ltd, a trading company, purchased in October 2020 at a cost of £80,000.
- 2) 35-year lease on a factory for use in Blaur plc's trade entered into in July 2021 at a cost of £320,000.

In addition, the company has indicated that it intends to purchase a freehold warehouse for use in its trade in summer 2022.

Explain:

- 1) **The availability of rollover relief to defer the gain made in February 2019.**
- 2) **The effect on the base cost of the replacement assets.**

29. In addition to trading income, Cots Ltd receives property and interest income each year.

The company has provided the following information in respect of the property that is rented out for the year ended 31 March 2021:

- 1) Rental income is receivable at the end of each calendar month (in arrears) of £750.
- 2) The amount due on 31 March 2021 was not paid until 18 April 2021.
- 3) A repair was required to the roof following storm damage costing £880.
- 4) Insurance of £480 was paid in September 2020 for the 12 months to 30 September 2021. The insurance for the previous year cost £390.
- 5) Interest of £2,850 was paid on the mortgage for the year.

The company's savings are held in a deposit account with interest paid at six monthly intervals. Interest was received during the year ended 31 March 2021 totalling £4,120. The amount of interest accrued at 31 March 2020 was £920 and at 31 March 2021 was £1,050.

Calculate the property income/loss and non-trade loan relationship credit/debit for the accounting period ended 31 March 2021.

30. Liony Ltd sold a warehouse in June 2021 for £420,000.

The warehouse had been purchased in August 1990 for £35,000. Professional fees and Stamp Duty Land Tax on the purchase totalled £2,100.

An extension was added to the warehouse in September 2010 at a cost of £52,000.

Structural repairs, which have been agreed to be capital in nature, were made to the warehouse in January 2018 at a cost of £12,000.

Calculate the chargeable gain arising on the sale of the warehouse.

31. Redgoe Ltd has one wholly owned subsidiary company, Purplepie Ltd. Both companies prepare their accounts to 30 September.

During the year ended 30 September 2021:

- 1) Redgoe Ltd sold a property for £870,000 resulting in a gain of £530,000. The company had capital losses brought forward of £125,000 at 1 October 2020.
- 2) Purplepie Ltd sold a 5% shareholding in an investment company for £120,000 at a loss of £30,000 in December 2020.
- 3) Redgoe Ltd has annual profits in excess of £2 million whilst Purplepie Ltd has annual profits of less than £500,000.

Explain how the companies may use the capital losses.

32. Pipty Ltd prepared accounts for the 16-month period from 1 May 2020 to 31 August 2021 and calculated tax-adjusted profits for the period of £2,100,000. The tax-adjusted profits for the previous year amounted to £1,650,000.

Explain the dates by which the company must file the Company Tax returns and pay Corporation Tax for the 16-month period ended 31 August 2021.

33. A UK tax resident company, Villaz Ltd, had trading profits from its UK based operations of £630,000 for the year ended 30 June 2021. In addition to this, trading profits arose in its two overseas permanent establishments as follows:

	<u>Trading profit</u> £	<u>Tax paid overseas</u> £
Permanent Establishment 1	155,000	15,500
Permanent Establishment 2	195,000	41,000

No election has been made to exempt the profits of the overseas permanent establishments and no double tax agreements exist.

Villaz Ltd paid a qualifying charitable donation in January 2021 of £5,000.

Calculate the Corporation Tax payable by Villaz Ltd for the year ended 30 June 2021.

34. Snowly Ltd is a close company and prepares accounts to 31 December each year. It does not pay Corporation Tax in instalments.

In September 2020, the company made a loan of £80,000 to one of the shareholders, Alexander White.

Alexander made one repayment of £10,000 on 1 September 2021 and he is hoping to make a further repayment of £20,000 in December 2021.

Explain the s.455 CTA 2010 tax implications of the loan made to Alexander for Snowly Ltd.

35. Ovox plc had the following recent results:

	<u>Year ended</u>	<u>Year ended</u>	<u>Year ended</u>
	<u>31 July 2019</u>	<u>31 July 2020</u>	<u>31 July 2021</u>
	£	£	£
Trade profit/(loss)	85,000	(192,000)	31,000
Interest income	3,000	2,000	2,800
Chargeable gains	-	14,500	-
Qualifying charitable donation paid	(1,500)	(2,500)	(3,500)

Assuming Ovox plc wishes to claim relief for the trade loss as early as possible, show how the trade loss will be relieved, clearly identifying the order in which the claims will be made.

36. Ovsea Co is a non-UK resident company owned as follows:

R Ltd	a UK company	45%
K Ltd	a UK company	20%
Mr and Mrs Smart		35%

For the year ended 30 September 2021, Ovsea Co has profits of £88,000 on which tax was paid overseas of £14,000.

Ovsea Co is a controlled foreign company. It does not qualify for any of the exemptions and its profits fall within one of the CFC gateways.

Explain any UK Corporation Tax implications of the £88,000 profits of Ovsea Co.

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 2020/21, Alison had employment income of £80,000 from Muntfoord Ltd, an employee controlled company. During the year, she incurred the following expenses:

	£
Interest on a loan to purchase a car for commuting to work	3,300
Interest on a loan to purchase shares in Muntfoord Ltd	6,000
Gift aid donation	4,000

Calculate Alison's Income Tax liability for 2020/21.

38. Bertie was employed by Edgerton Ltd from 6 June 2020 on an annual salary of £30,000. On that date he was provided with a newly furnished apartment, the details of which are as follows:

	£
Cost to Edgerton Ltd in 2001	200,000
Market value on 6 June 2020	315,000
Annual value	4,800
Cost of the furniture on 6 June 2020	18,000

Bertie had personally paid a subscription of £300 to an approved professional body which was not reimbursed by Edgerton Ltd.

Calculate Bertie's employment income for 2020/21.

39. Caroline started employment as a salesperson with Dooglass Ltd on 6 September 2020. She was offered a choice between a newly registered company car costing £18,000 with CO₂ emissions of 197g/km with all petrol being paid for by Dooglass Ltd, or a mileage allowance of 60p per business mile for using her own vehicle. Caroline drove 12,000 miles between 6 September 2020 and 5 April 2021, one third of which were for private journeys.

Calculate Caroline's additional employment income for 2020/21 if she chose:

- 1) **The company car and fuel provided by Dooglass Ltd.**
- 2) **To use her own car for business mileage.**

40. During 2020/21 Denise let out two rooms in her main residence, charging rent of £175 per week per room and incurring additional household expenses totalling £1,200 for the year. As at 6 April 2021, one of the tenants owed two weeks' rent.

Denise allows members of the public to fish from the bank of a river which runs through the grounds of her house for a fee of £5 per day. During 2020/21 her income from this source was £980.

In addition, Denise has an annual income of £60,000 from renting out several residential and commercial properties. She has not and does not intend to make an election for the accruals basis to apply to her property income.

Explain, with supporting calculations, how the income from the letting of the rooms in Denise's main residence and from the river may be taxed and state any elections that may be required.

41. Elijah had income and expenses for 2020/21 as follows:

	£
Salary and benefits in kind from Sheay Ltd	222,000
Occupational pension contributions paid by Sheay Ltd	18,000
Property income	15,000
Personal pension contributions paid by Elijah (gross)	5,000

Elijah has no unused annual allowance brought forward from previous years.

Calculate, with explanations, Elijah's annual allowance for 2020/21.

42. During 2020/21, Flora subscribed for shares, representing a 15% holding, in each of the following companies:

- 1) Sidderz Ltd, a manufacturing company in which Flora will become a director after the share issue.
- 2) Rickz Ltd, a trading company in which Flora's husband is an employee.
- 3) Vickz Ltd, a trading company which has 30 employees, of which 15 are on part-time (50%) contracts.
- 4) Dunnz Ltd, a trading company with net assets of £230,000.
- 5) Teddz Ltd, a manufacturing company which has been trading since 2016.

Explain whether or not any of Flora's investments during 2020/21 could potentially qualify for relief under the Seed Enterprise Investment Scheme.

43. Leock plc runs a Share Incentive Plan. During 2020/21 the company's shares were valued at £9 per share.

George has been a part-time employee of Leock plc for many years. His annual salary for 2020/21 was £13,500.

During 2020/21, George was awarded the maximum number of shares under the Share Incentive Plan and was allowed to purchase the maximum number of partnership shares. The company also awarded him the maximum number of matching shares. George received dividends of £18 from the shares which he used to purchase more shares.

Calculate, with explanations where necessary, the total number of shares that George received during 2020/21.

44. Glenn was born on 30 March 1948 and is an employee of Howerton Ltd, a company with in excess of 200 employees. His annual salary in 2020/21 was £14,000.

Diandra was born on 1 November 1965 and is a director of Howerton Ltd. In 2020/21 her annual salary was £15,000 and her benefits in kind were £60,000.

On 31 March 2021, Howerton Ltd paid Glenn and Diandra bonuses of £2,000 and £30,000 respectively.

Calculate, with explanations where necessary, the National Insurance Contributions payable by Glenn, Diandra and Howerton Ltd for 2020/21.

45. Helen, who has always lived in the UK, is an employee of Glowbull Ltd on an annual salary of £60,000. On 8 January 2021 she left the UK for a three-year secondment to Glowbull Ltd's US office. She started full-time work in the US office on 1 February 2021.

Helen also has annual property income of £12,000 from a residential property in Bristol and £18,000 from an apartment in Barcelona, Spain.

Explain, with supporting calculations where necessary:

- 1) **Helen's UK residency status for 2020/21.**
- 2) **The UK Income Tax treatment of her income during 2020/21.**

46. On 20 February 2005, Imogen purchased 1,000 shares in Hareeson plc for £20,000. Hareeson plc has 10 million shares in issue.

On 14 March 2021, Hareeson plc was taken over by Pheeb's plc. In exchange for her shares in Hareeson plc, Imogen received 2,000 £1 ordinary shares in Pheeb's plc, worth £55,000, 8% non-convertible loan stock (a qualifying corporate bond) worth £35,000 and £10,000 cash.

Imogen is a higher rate taxpayer and has already used her Capital Gains Tax annual exemption for 2020/21.

- 1) **Explain the Capital Gains Tax treatment of the non-convertible loan stock.**
- 2) **Calculate Imogen's Capital Gains Tax liability for 2020/21 on the disposal of her shareholding in Hareeson plc and state the due date for payment.**

47. In 2002, Jasmine purchased a residential property for £82,000. In 2009 an orangery was added at a cost of £15,000, however in October 2012 the orangery was destroyed in a fire and was not replaced.

On 1 November 2020, Jasmine disposed of the residential property, which had always been rented out to tenants, for £125,000.

On 17 January 2021, a painting, which had cost Jasmine £10,000 in 2015, was stolen. On 1 February 2021, Jasmine received £25,000 from the insurance company and on 14 March 2021 she purchased a new painting for £22,000.

Jasmine's income in 2020/21 is in excess of £200,000.

Calculate Jasmine's Capital Gains Tax liability for 2020/21, assuming any available claims are made.

48. On 1 January 2020, Kieran sold his 100% holding in Kelseay Ltd, a trading company, to Buclet plc. The shares had cost him £250,000 in July 1997 and he had become a director of the company at that date.

The terms of the sale were that Kieran received £550,000 cash on 1 January 2020 plus an amount to be received on 1 February 2021 which was contingent on Kelseay Ltd's net profit for the year ended 31 December 2020. The contingent amount was valued at £120,000 on 1 January 2020.

On 1 February 2021 Kieran received £95,000.

Kieran was a higher rate taxpayer in all years but has never had any other capital gains. He made any elections available in relation to the disposals.

- 1) **Calculate the Capital Gains Tax payable by Kieran in 2019/20.**
- 2) **Explain, with supporting calculations where necessary, the effect of the receipt of £95,000 on 1 February 2021.**

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. Mikey began trading on 1 September 2019, choosing to prepare accounts to 30 June each year. The tax-adjusted trading profits were:

	£
10 month period ended 30 June 2020	14,000
Year ended 30 June 2021	18,000

State the basis periods and calculate the assessable trading income for Mikey for the 2019/20 and 2020/21 tax years, clearly identifying any overlap profits to carry forward.

50. Harry realised a trade loss of £10,800 for his delivery business in 2019/20 but an increase in work resulted in a profit for 2020/21 of £34,400. Harry has no other sources of income.

Calculate the Class 4 National Insurance Contributions payable for 2020/21 and briefly explain the due date(s) for payment.

51. Stacey began trading on 1 August 2021 after spending more than six months researching whether the business was likely to succeed. This included meeting with potential suppliers to ensure the best price for her stock. Details of the expenses incurred include:

February 2021 to 31 July 2021	8,000 miles travelled in her own car visiting UK suppliers
May 2021	Flights and accommodation to visit overseas suppliers (cost £1,200)
June 2021	Purchase of computer equipment for use in the business

Explain to what extent and how Stacey can claim tax relief in relation to these costs.

52. Kevin and Lucy have been in partnership for many years sharing profits equally, after salaries of £10,000 per annum to Kevin and £12,000 per annum to Lucy.

On 1 April 2021 Natalie joined the partnership, introducing £100,000 of capital to the business. The partners have agreed that Natalie will be entitled to a 3% return on this capital and a salary of £15,000 per annum. The other partners will continue to take their salaries as before, with the three partners taking an equal share of any remaining profits.

For the year ended 30 June 2021 the partnership realised a tax-adjusted trade profit of £100,000.

Calculate the allocation of profit to the partners for the year ended 30 June 2021.

53. As at 1 April 2020, Steve had the following tax written down values in relation to his assets:

	£
Main pool	43,220
Private use car (CO ₂ emissions 154g/km)	10,410

On 1 September 2020, the private use car was sold for £8,700 and replaced with a new private use car costing £18,350 with CO₂ emissions of 168g/km. Business use of both cars is 80%.

Calculate the maximum capital allowances for the year ended 31 March 2021.

54. After a difficult period of trading, Cerys ceased to trade on 28 February 2021. Results for recent periods were:

	<u>Profit/(loss)</u>
	£
Year ended 30 September 2019	18,500
Year ended 30 September 2020	(12,100)
Period ended 28 February 2021	(16,310)

Cerys had overlap profits brought forward of £4,000.

Calculate:

- 1) **The trading loss arising in 2020/21.**
- 2) **The terminal loss arising on the cessation of trade on 28 February 2021.**

55. Archie and his father Zac are sole traders.

On 1 September 2005, Zac sold the property from which he ran his business to Archie for £50,000, when the market value was £185,000. Zac had originally paid £20,000 for the property.

Archie has operated from the property since that date but now intends selling his entire business on 1 January 2022. The forecast market value of the premises is £310,000.

Calculate the gain arising on the property on 1 January 2022, explaining the base cost, if:

- 1) **No gift relief was claimed in September 2005.**
- 2) **Gift relief was claimed in September 2005.**

56. George has traded for over 20 years, preparing accounts to 31 July. His last accounts were for the year to 31 July 2019. For commercial reasons, George wants to make up his accounts to 31 March and therefore his next set of accounts will be for the period 1 August 2019 to 31 March 2021.

State the conditions for a valid change of accounting date and explain the necessary actions by George for the proposed change to be valid.

57. Nikolei has prepared accounts for the year ended 31 March 2021 including the following expenses in the calculation of a profit of £31,140:

<u>Expense</u>	£	<u>Additional information</u>
Promotional event	4,420	Attended by clients and a select number of key employees
Loan written off	800	Made to employee December 2020, written off March 2021
Staff training	2,660	Course to train staff on efficient working from home
Accountancy fees	2,450	Includes £1,200 for tax enquiry (resulting in additional tax payable)
Website costs	2,810	Costs to create new website to support online sales

Calculate the tax-adjusted profit for the year ended 31 March 2021, clearly showing your treatment of each item.

58. Petra has the following income for the most recent tax years:

	<u>2019/20</u>	<u>2020/21</u>
	£	£
Trade profits	31,000	Nil
Property income	24,000	14,000
Interest income	2,000	Nil

For the year ended 30 September 2020 Petra realised a trade loss of £18,000.

Explain the advantages of making a carry back claim for the trade loss rather than a current year claim and state the deadline for making the claim.

59. Emily sold the offices from which she trades on 18 February 2020 for £280,000, resulting in a capital gain of £145,000.

The business has been operating from rented offices since that date as Emily was unable to find suitable alternative premises in her chosen area. She has now identified two possible freehold properties for purchase.

The first is a newly renovated office called “The Wharf” which could be purchased before the end of 2021 at a cost of £250,000.

The second is an office currently being constructed called “The Quays” which will cost £300,000 and will not be available for purchase until late 2022.

Explain the matters for Emily to consider in relation to the availability of rollover relief for each option.

60. Jonathon has recently concluded the construction of a new factory for use in his business. Work on the factory began in December 2020. He has provided the following breakdown from the construction firm about the costs incurred:

	£
Land	85,000
Planning permission costs	8,200
Main structural works on the building	220,000
Sewerage and drainage systems	35,200
Heating and air conditioning systems	24,800

Explain what tax relief will be available to Jonathon in relation to each element of the construction cost.