

# The Chartered Institute of Taxation

## AWARENESS

May 2022

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correct question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

## Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Mark provides landscaping services and sells garden equipment to private customers.
  - 1) He completed some landscaping services on 19 January but did not receive payment until 8 February.
  - 2) Garden equipment was ordered on 29 January, with a 20% deposit paid on that date. Mark delivered the goods on 3 February and an invoice was sent to the customer on 10 February.

**Explain the tax points for these supplies.**

2. Sally is preparing VAT invoices for the following property sales she has just made and is unsure what VAT, if any, should be charged:
  - 1) A three-acre plot of land sold to an individual who will build her own house on the site.
  - 2) Land and a commercial storage unit built by Sally in 2020 for sale by way of freehold (Scots Law – ownership).
  - 3) Land and an unused warehouse, which Sally had owned a long lease on for many years.

**Explain the VAT rating of each supply.**

3. Karim runs a business which has grown rapidly. The Financial Controller has highlighted some cashflow concerns, mainly due to customers taking longer to pay than usual and has suggested they offer a prompt payment discount to encourage customers to pay sooner.

**Explain the effect of the discount on the VAT charge and supporting paperwork which will be issued to the customers.**

4. On 1 April 2018, Guam Ltd purchased a factory for £480,000, including VAT of £80,000. Guam Ltd immediately made an option to tax in relation to the factory.

The company makes both taxable and exempt supplies and the split over recent years has been summarised below:

<u>Year ended 31 March</u>	<u>Taxable use %</u>
2019	78
2020	84
2021	80
2022	76

On 31 March 2022, Guam Ltd sold the factory for £770,000, exclusive of VAT.

**Calculate the capital goods scheme adjustment for the year ended 31 March 2022.**

5. Becky wishes to deregister for VAT since her recent turnover has significantly reduced and is unlikely to increase in the next few years.

She has items in stock purchased for £5,600 but now valued at £4,900, and computer and production equipment purchased for £22,000 with a current value of £14,000. All of these are standard rated goods and Becky reclaimed the VAT paid on their purchase. The values stated are net of VAT.

In addition to these, she has a computer which was purchased from a non-registered trader for £2,000, which is currently valued at £1,500.

**Explain:**

- 1) **Why Becky is able to deregister despite continuing to trade, and when this would be effective.**
- 2) **The necessary VAT adjustments in relation to the items still held by the business.**

6. Scott is a second-hand car dealer. He usually purchases cars from members of the public but occasionally he buys cars from other businesses.

During the month of March 2022, he bought and sold the following vehicles:

- 1) A van was purchased from a local business for £4,400 plus VAT. Repairs were necessary, costing £600 inclusive of VAT, before the van was sold for £6,120.
- 2) A car was purchased from a member of the public for £2,500 and later sold for £3,700, after Scott paid £360 (including VAT) for small repairs to the bodywork.

**Calculate the VAT payable for the month of March 2022.**

7. Mino Ltd owns 100% of the share capital of Nyne Ltd and 40% of Ponn Ltd. An application for group registration was made to include all possible entities.

During the latest quarter, the following sales and purchases were recorded by the companies:

	<u>Mino Ltd</u> £	<u>Nyne Ltd</u> £	<u>Ponn Ltd</u> £
Sales – all standard rated, exclusive of VAT:			
To third parties	440,000	360,000	320,000
To Nyne Ltd	45,000	n/a	20,000
To Ponn Ltd	28,000	22,000	n/a
To Mino Ltd	n/a	60,000	25,000

**Calculate the Output VAT entry for the group VAT return for the quarter and state ONE disadvantage of a group registration.**

8. Albert has traded for many years, using the flat rate scheme for VAT purposes. The industry rate applicable is 12.5%.

Albert has provided the following information (net of any applicable VAT charges) for the quarter ended 30 April 2022:

<u>Sales</u>	£
Standard rated goods	18,500
Zero rated goods	7,300
Machinery	4,000
 <u>Purchases and expenses</u>	
Materials and consumables	11,200

Albert claimed the VAT paid on the machinery when it was originally purchased.

**Calculate the VAT payable for the quarter.**

9. Debra has been a VAT registered trader for the last five years.

Debra received notice of an assurance visit by HMRC to take place on 10 March 2022. During the visit, the officers discovered an error made in the return submitted for the quarter ended 30 June 2019.

An assessment for the VAT owing as a result of the error was issued by HMRC on 2 April 2022.

**Explain why the assurance visit might have been arranged and whether the assessment was raised within the permitted period.**

10. Bambi began trading on 1 October 2021. She has kept very little paperwork for her sales and purchases to date but is able to summarise her total income and expenses from her bank records as no cash transactions took place.

Bambi has found that she should have registered for VAT with effect from 1 March 2022, since her turnover to date exceeded the annual registration threshold as at 31 January 2022.

**Explain the effects for Bambi of failing to register on time for VAT.**

11. Carol has recently been appointed as Company Secretary of Olio Ltd and is reviewing the company's share records.

She has noted three transactions which she is concerned about since the documents do not appear to have been stamped:

28 April 2007	500 new shares were issued to an existing shareholder by Olio Ltd
14 September 2011	One of the shareholders gifted half of his shares to his daughter
3 January 2019	Another shareholder transferred half of her shares to her ex-husband as part of their divorce arrangements

**Explain whether the documents should have been stamped in each case and the legal position if stamping was not completed where required.**

12. Karl sold his main residence on 30 November 2021 for £2.6 million.

After purchasing a smaller apartment to live in himself in December 2021, Karl spent the remaining £1,540,000 in March 2022 purchasing eight houses from a property developer.

**Explain the Stamp Duty Land Tax payable by Karl on the eight houses.**

## 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. Hannah was born in the UK on 1 November 1965 to UK domiciled parents.

On 20 February 1971, she and her parents emigrated to and became domiciled in Canada.

On 14 March 2020, Hannah came back to the UK for the first time and became UK resident from 2020/21. Her intention is to return to Canada when she retires in five years' time.

**Explain whether Hannah is UK domiciled for Inheritance Tax purposes in 2021/22.**

14. On 1 December 2021, Alma, who had made no previous transfers, made the following transfers into discretionary trusts:

	£
Cash gift to the Gilead Discretionary Trust (the trustees paid the tax)	100,000
Cash gift to the Osbourne Discretionary Trust (Alma paid the tax)	500,000

**Calculate the gross chargeable transfer value of each gift.**

15. Moira died on 12 December 2021. At the time of her death she was domiciled and resident in Australia and owned the following assets:

- 1) A debt owed by her ex-husband Duncan, who has been living in Italy since their divorce in 2011. Moira had obtained a UK County Court Judgement in respect of the debt.
- 2) Shares in Naruela SL, a company resident in the UK. The register of shares is kept in Spain.
- 3) An Australian dollar savings account held in the London branch of the Bank of Australia.

**Explain whether each of the assets is subject to UK Inheritance Tax on Moira's death.**

16. Afzal has disposable income in excess of £500,000 each year.

Since September 2017, Afzal has been paying his grandchild's private school fees of £17,500 per year.

On 30 March 2022, at his 70<sup>th</sup> birthday party, Afzal gave a gift valued at £200 to each of the 60 members of his family.

**Explain any exemptions that may apply to Afzal's payment of the school fees and the gifts to his family.**

17. On 6 December 2021, June gifted her entire shareholding in Azulroja Ltd and two antique sculptures to her granddaughter, Charlotte, on the occasion of Charlotte's marriage.

Azulroja Ltd is an unquoted investment company. Before the gift, June had a 60% holding in the company, worth £800,000 and her husband Luke owned the other 40% which was worth £400,000. The value of the entire company was £1.6 million.

The two antique sculptures were part of a set of three, with the third sculpture owned by Luke. The value of each individual sculpture was £150,000, and the value of the complete set was £750,000.

June had made no previous lifetime gifts.

**Calculate the value of the potentially exempt transfer to Charlotte.**

18. Nick, who had never married, died on 17 January 2022 leaving the following assets and liabilities:

<u>Assets</u>	£
House in Cheshire	350,000
Shares in Blaine Ltd	600,000
Investments, car and personal chattels	230,000

<u>Liabilities</u>	
Repayment mortgage secured on the house	200,000
Personal loan taken out to buy a car	30,000

In the week before his death, Nick had accidentally run over his neighbour's cat with his car and verbally promised to pay the vet's bill of £330.

Blaine Ltd is an unquoted trading company. Nick had owned 100% of the shares since the company's incorporation in 1994. On 31 December 2021, the board of directors had passed a resolution to voluntarily wind up the company.

Nick had made no lifetime gifts and left his entire estate to his daughter, Nicole.

**Calculate the Inheritance Tax payable on Nick's death.**

19. Fagbenle died on 15 February 2022. During his lifetime he had made the following transfers into discretionary trusts:

		<u>Value of</u> <u>shares at date</u> <u>of gift</u> £	<u>Lifetime</u> <u>Inheritance Tax</u> <u>paid</u> £	<u>Gross</u> <u>Chargeable</u> <u>Transfer</u> £
24 June 2016	NOP trust	380,000	12,250	386,250
19 October 2018	QRS trust	660,000	163,500	817,500

At the time of his death, the value of the shares gifted to the NOP trust was £250,000 and the value of the shares gifted to the QRS trust was £720,000.

**Calculate the Inheritance Tax payable on the two lifetime transfers as a result of Fagbenle's death, assuming any beneficial elections are made.**

20. Serena died on 12 May 2022, leaving 1,500 shares in Joywater plc and an apartment in Florida to her brother, Charlie.

At the date of her death, the shares in Joywater plc were quoted at 316p – 320p with marked bargains of 310p, 315p and 320p. The ex-dividend date was 10 May and a dividend of 6p per share was paid on 31 May 2022.

The apartment in Florida was valued at £234,000, and additional administration expenses of £14,000 and overseas tax of £21,500 were incurred in relation to the apartment.

**Calculate the Inheritance Tax value of the shares and the apartment to include in Serena's death estate.**

21. Rita, a higher rate taxpayer, made the following disposals during 2021/22:
- 1) A commercial property for proceeds of £75,000 before selling expenses of £5,000. The property had cost £62,000 in 2011.
  - 2) Shares in PQR Ltd for proceeds of £32,000, before broker's fees of 5%. The shares had cost £95,000 in 2016.

Rita died on 29 March 2022. Her Capital Gains Tax information for the years prior to her death is as follows:

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
	£	£	£
Gains	85,000	55,000	72,000
Losses	<u>(18,000)</u>	<u>(15,000)</u>	<u>(17,000)</u>
Net gains/(loss)	67,000	40,000	55,000
Annual exemption	<u>(11,700)</u>	<u>(12,000)</u>	<u>(12,300)</u>
Taxable gains	<u>£55,300</u>	<u>£28,000</u>	<u>£42,700</u>

None of the gains were on residential property.

**Calculate:**

- 1) Rita's net capital loss for 2021/22 and explain how this is relieved.
- 2) The amount of any refund of Capital Gains Tax and explain how this will be treated for Inheritance Tax purposes.

22. In October 2002, Warren created an Interest in Possession trust for his adult daughter Janine as the life tenant.

During 2021/22, the trustees incurred management expenses (met from income) of £4,625 and had the following income:

	£
Rental income	95,000
Interest income	77,000
Dividend income	30,000

**Calculate:**

- 1) The trust income available for distribution by the trustees for 2021/22.
- 2) The figures to be included on the R185 for Janine.

23. Josef, who had never married or made any lifetime gifts, died on 28 February 2022. His chargeable estate, which was left to his son, Franz, was as follows:

	£	£
Family home		1,250,000
Share in trading partnership	175,000	
Less BPR @ 100%	<u>(175,000)</u>	
		Nil
Cash and quoted investments		<u>800,000</u>
		2,050,000
Less liabilities		<u>(60,000)</u>
		1,990,000
Less charitable legacy		<u>(700,000)</u>
Chargeable Estate		<u>£1,290,000</u>

**Calculate the Inheritance Tax payable on Josef's death.**

24. Lydia died on 10 March 2020. Her executors filed the Inheritance Tax return and paid the tax due on 4 May 2022.

**Explain the maximum penalties that could be imposed for the late filing of the Inheritance Tax return.**



## 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. Ayrport Ltd was incorporated on 1 January 2021 and started to trade on 1 February 2021. It prepared its first accounts to 30 April 2022. It is not a large company nor a very large company for the purposes of paying Corporation Tax by instalments.

**Explain how the Corporation Tax filing and payment dates are determined for the period of account ended 30 April 2022.**

26. Back Foot Ltd is a trading company. It prepares its accounts under FRS 102. For the year ended 31 March 2022, it had a profit before tax of £480,000 after deducting the following amounts:

	£
Finance lease interest	300
Finance lease depreciation	7,500
Operating lease costs (includes a maintenance element of £240)	3,000
Pension contributions	46,000

The finance lease relates to an item of plant and machinery.

The operating lease was entered into on 1 September 2021 and relates to a car with CO<sub>2</sub> emissions of 80g/km. The car was made available to an employee who used it 70% for business purposes.

Pension contributions includes accrued contributions of £1,400 paid in April 2022.

**Calculate the company's tax adjusted trading profit for the year ended 31 March 2022, clearly showing your treatment of all items.**

27. Beade Ltd incurred the following capital expenditure during the year ended 31 March 2022:

1 May 2021	New car with zero CO <sub>2</sub> emissions costing £18,000
14 August 2021	New car with CO <sub>2</sub> emissions of 60g/km costing £32,000
17 March 2022	Second hand van with CO <sub>2</sub> emissions of 20g/km costing £13,000

On 1 March 2022, Beade Ltd sold a car for £4,000. The car had been purchased for £25,000 three years earlier and a 100% First Year Allowance had been claimed.

At 1 April 2021, the balance of the main pool was £145,000, and on the special rate pool it was £50,000.

**Calculate the maximum capital allowances that the company may claim for the year ended 31 March 2022.**

28. Byker Ltd prepares its accounts to 31 March. On 1 August 2020, it bought the freehold of an unused commercial building from the developer, paying £720,000 of which £120,000 related to the cost of the land. The company began to use the building in its trade on 1 October 2020. The building is not in a Freeport tax site.

**Calculate the structures and buildings allowances for the two years ended 31 March 2021 and 2022.**

29. Callertone Ltd, a trading company, is owned 50% by Mr Park and 50% by Mr Way.

For the year ended 31 January 2022, the company had a profit before tax of £200,000 after taking into account an expense of £24,000 arising on the write-off of an amount due from Mr Park. The company had made a loan to Mr Park of £24,000 in 2019, paying tax of £7,800 under s.455 CTA 2010 for the relevant period.

On 1 January 2022, the company made a loan of £50,000 to Mr Way. Mr Way made a repayment of £10,000 on 1 April 2022. No further repayments are anticipated.

**Calculate the Corporation Tax payable by the company for the year ended 31 January 2022 taking into account any tax payable or repayable under s.455 CTA 2010.**

30. Cintrail Ltd is a large company for the purposes of research and development tax relief. For the year ended 31 March 2021, the company had a trade profit of £12 million. This takes into account the following expenditure relating to staff working exclusively on a research project:

	£
Salaries	560,000
Pension contributions	120,000
Private medical insurance	18,000

Salaries include secondary Class 1 National Insurance Contributions of £60,000.

**Calculate the reduction in Corporation Tax payable by the company as a result of claiming the Research and Development Expenditure Credit.**

31. Chachester Ltd made a trading loss of £53,000 for the six-month period to 31 March 2022, when it ceased trading. It had no other income or gains for the period.

Its results for earlier periods are set out below:

	<u>Year ended</u> <u>30/09/2018</u>	<u>Year ended</u> <u>30/09/2019</u>	<u>Year ended</u> <u>30/09/2020</u>	<u>Year ended</u> <u>30/09/2021</u>
	£	£	£	£
Trading profit	16,000	22,000	12,000	6,000
UK property business income	Nil	Nil	3,600	Nil
Chargeable gain/(loss)	Nil	Nil	8,000	(2,000)
Qualifying charitable donations	Nil	1,500	Nil	Nil

**Calculate the company's taxable total profits for the earlier periods assuming that it makes a claim for terminal loss relief in respect of its trading loss.**

32. On 1 March 2022, Chellingham Ltd sold a factory for £325,000. Legal fees of £10,000 were incurred in connection with the sale.

The company had bought the factory on 1 January 2007 for £300,000. At that time, a gain of £45,000 was rolled over against the factory.

On 1 May 2019, the company incurred expenditure of £40,000 in building an extension to the factory.

**Calculate the gain or loss arising on the disposal of the factory.**

33. Fawdon Ltd's and Gateshead Ltd's results for the year ended 30 April 2022 are set out below:

	<u>Fawdon Ltd</u>	<u>Gateshead Ltd</u>
	£	£
Trading profit/(loss)	30,000	(20,000)
Overseas property business loss	Nil	(15,000)
Qualifying charitable donation	Nil	(4,000)

Gateshead Ltd had been a 100% subsidiary of Fawdon Ltd since it was incorporated in 2010. On 31 December 2021, Fawdon Ltd sold its shares in Gateshead Ltd to a third party. Arrangements came into force to sell the shares on 30 November 2021.

**Explain the maximum amount of group relief that Gateshead Ltd may surrender to Fawdon Ltd.**

34. Fellgate Ltd has a number of wholly owned subsidiary companies. On 1 February 2022, it sold its shareholding in Hadrian Ltd for £2 million. The indexed cost of the shares was £400,000. Hadrian Ltd carried on a property investment business.

On 1 May 2018, Fellgate Ltd had transferred the freehold interest in a building to Hadrian Ltd at its indexed cost of £150,000. Both Fellgate Ltd and Hadrian Ltd had held the building as a fixed asset. The market value of the building was £250,000 on 1 May 2018 and £275,000 on 1 February 2022.

**Explain how the chargeable gain or loss on the sale of the shares is calculated.**

35. Folei Inc came within the controlled foreign company rules when it was acquired by Heymarkt Ltd on 1 April 2019. The following initial information is available for Folei Inc for its nine-month accounting period ended on 31 December 2021:

	£
Trading income	300,000
Non-trading income	35,000
Taxable total profits	<u>£335,000</u>
Profit margin	20%

**Explain whether or not any of the exempt period, low profit margin and low profits exemptions to the controlled foreign company apportionment charge apply with regard to Folei Inc for the period ended 31 December 2021.**

36. Heworth Ltd has a year end of 31 March. On 1 June 2021 the company borrowed £100,000 from Mr Ilford, a shareholder, and £200,000 from Roade Ltd, a company controlled by Mr Ilford. Interest on the loans is payable annually in arrears.

On 31 May 2022, the company will make interest payments of £5,000 to Mr Ilford and £10,000 to Roade Ltd.

**Explain whether Heworth Ltd should withhold Income Tax from the interest payments and if so, how it should be accounted for to HMRC.**

## 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 2021/22, Michael had dividend income of £8,000 and property income of £20,000.

Michael's civil partner had made a valid marriage allowance election.

**Calculate Michael's Income Tax liability for 2021/22 clearly showing your treatment of all items.**

38. For 2021/22, Hamza had employment income of £105,000. On 1 September 2021, he had made a cash donation of £1,280 under the Gift Aid scheme.

**Explain, with supporting calculations, how additional Income Tax relief is given to Hamza in respect of his donation.**

39. Wainsbeck Ltd is a close company. In March 2022, it gave its staff the following gifts:

<u>Recipient</u>	<u>Gift</u>	<u>Reason</u>	<u>Value</u> £
Rashid	Flowers	Marriage	60
Jennifer	Chocolates	Excellent performance appraisal	30
Amy	Cash	Birthday	45
Melissa	Hamper	Wedding anniversary	40

Melissa is a director of Wainsbeck Ltd. Between 6 April 2021 and 28 February 2022, she had received trivial benefits totalling £270.

**Explain whether each gift meets the conditions for the exemption for trivial benefits.**

40. Michelle, aged 40, is a director of Dockk Ltd. For 2021/22, she received a salary of £5,000 per month and a bonus of £10,000, paid in March 2022. The company also provided her with private medical insurance costing £1,400.

**Calculate the National Insurance Contributions payable by Michelle and Dockk Ltd, identifying the relevant classes of National Insurance Contributions. Ignore the employment allowance.**

41. On 9 November 2021, Reaygent Ltd made the following loans to an employee, Kendi:

	<u>Purpose</u>	<u>Amount</u> £
Loan one	To assist her with the purchase of a house	15,000
Loan two	To use to buy an annual travel card to travel to work	2,000

On 31 March 2022, Kendi made a repayment of £3,000 against loan one.

As at 5 April 2022, Kendi had paid interest of £53 in respect of loan one and £7 in respect of loan two.

**Calculate the taxable benefit in kind for Kendi using the average method.**

42. Christopher and his wife, Kimberley, recently inherited a large sum of money and wish to make tax-efficient contributions to their personal pension schemes.

Their annual income is as follows:

	<u>Christopher</u> £	<u>Kimberley</u> £
Employment income	18,000	2,500
Furnished holiday let income	2,000	nil
Dividend income	6,000	nil

**Calculate the maximum gross contributions eligible for tax relief and the net amounts payable by Christopher and Kimberley.**

43. Jason owns a building. The ground floor is let as commercial premises and the first floor is let as residential accommodation. For 2021/22, Jason had the following income and expenses in relation to the building:

	<u>Ground floor</u>	<u>First floor</u>
	£	£
Rent received	9,600	4,000
Premium received from new tenant (20 year lease)	3,000	nil
Deposit received from new tenant	nil	960
Replacement of boiler	nil	2,100
Mortgage interest paid	3,000	1,500

**Calculate Jason's property income for 2021/22 clearly showing your treatment of all items.**

44. In 2018/19, Lisa subscribed for shares in a number of companies, claiming Income Tax relief under the Enterprise Investment Scheme (EIS) at the rate of 30%. She disposed of all of the shares in 2021/22. The relevant details are set out below:

<u>Company</u>	<u>Shares held for</u>	<u>Amount</u> <u>Subscribed</u>	<u>Proceeds</u> <u>of sale</u>
		£	£
Ayshton Ltd	3 years, 2 months	10,000	8,000
Bayrlow Ltd	2 years, 11 months	20,000	nil
Choyrlton Ltd	2 years, 10 months	20,000	nil
Derker Ltd	2 years, 8 months	50,000	12,000
Eccyles Ltd	2 years, 7 months	70,000	84,000

Lisa gave the shares in Bayrlow Ltd to her husband and the shares in Choyrlton Ltd to her daughter. The remaining shares were sold to unconnected third parties.

**Explain, with supporting calculations, the amount of Income Tax relief clawed back in respect of each disposal.**

45. In March 2022, James sold 10,000 shares in Droylsden Inc for £40,000.

In December 2009, he had acquired 8,000 shares for £8,000.

In June 2013, he had acquired 12,000 shares for £18,000.

In August 2014, the company had made a 1:10 rights issue at £2.00 per share, which he took up in full.

In September 2020, the company had made a 1:5 bonus issue.

**Calculate the chargeable gain on the disposal of the shares.**

46. On 28 February 2022, Malika sold a house for £190,000, incurring estate agent's fees of £1,500. She had bought the house on 1 March 2006 for £80,000 and had lived in it up to 1 March 2014 when she left the UK to go travelling. Malika chose not to reoccupy the property on her return to the UK on 1 March 2016. From that date, the property was let to tenants and Malika moved in with her parents.

**Calculate the chargeable gain on the disposal of the house.**

47. On 1 May 2021, Heather sold a commercial property held as an investment, realising a gain of £60,000. She made no other disposals during 2021/22. She had a capital loss of £4,500 brought forward from 2019/20 relating to the disposal of shares in a listed company.

For 2021/22, Heather had employment income of £45,000.

**Calculate the Capital Gains Tax payable and state the due date for payment.**

48. On 8 December 2021, Brian submitted his tax return online for 2020/21. In May 2022, he realised he had made a careless error in preparing the return. As a result of the error, he had understated his property income by £3,000. Brian paid Income Tax at the higher rate on his property income.

**Explain how and by when Brian may correct the error and the importance in terms of penalties for Brian of doing this before HMRC enquire into the return.**

## 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. Mickey started trading as a carpenter on 1 January 2021. HMRC were not notified that he had started to trade until 15 March 2022, when he engaged the services of a tax adviser who immediately notified HMRC on his behalf.

Mickey's Income Tax and Class 4 NICs for 2020/21 were calculated to be a total of £8,057. This was paid when his tax return was filed on 30 April 2022.

- 1) State the latest date by which Mickey should have notified HMRC that he had started to trade.
- 2) Explain the minimum and maximum penalties that may be due if the failure to notify HMRC was not deliberate or concealed.

50. Ray, a sole trader, had a draft trading profit for the year ended 31 December 2021 of £93,000. This is after deducting the following expenses:

- 1) A £5,000 debt written off which was owed by Ray's employee, Lena.
- 2) £7,500 for repairing Ray's business premises, which included replacing roof tiles and broken windows, after a storm on 22 September 2021. Ray filed an insurance claim and on 28 December 2021 he received confirmation that the full cost of the repairs would be covered. The insurance proceeds were received on 10 January 2022.
- 3) £10,000 premium paid on 1 October 2021 on the grant of a 10-year lease of a warehouse.

The rent payable on the warehouse is £12,000 per annum, payable six-monthly in arrears. No deduction for rent payable has been made in arriving at the draft trading profit of £93,000.

**Calculate Ray's taxable trading income for the year ended 31 December 2021, clearly showing your treatment of each item.**

51. Abby is a sole trader. During the year ended 31 January 2022, she leased two cars:

- 1) A Volkswagen Golf with CO<sub>2</sub> emissions of 45g/km for use by an employee, who drove 8,000 miles, 2,000 of which were for private journeys.
- 2) An Audi TT with CO<sub>2</sub> emissions of 135g/km for use by Abby, who drove 15,000 miles, 6,000 of which were for private journeys.

The expenses incurred in respect of the cars were as follows:

	<u>Finance lease</u> <u>interest</u>	<u>Finance lease</u> <u>depreciation</u>	<u>Fuel</u>
	£	£	£
VW Golf	1,200	2,000	660
Audi TT	1,800	3,000	1,400

**Calculate Abby's allowable deduction against trading profits in the year ended 31 January 2022 in respect of the two cars.**

52. Terry is a sole trader and in the year ended 5 April 2022 his draft trading profit was £67,000.

On 1 November 2021, Terry paid a trade-related patent royalty of £1,600. The patent royalty has not yet been accounted for in his draft trading profit.

Terry's only other source of income for 2021/22 was rental income of £15,000.

**Calculate Terry's Income Tax payable for 2021/22, clearly showing your treatment of the patent royalty paid.**

53. Brendan has been trading as a sole trader for several years. In 2020/21 he had a trading loss of £58,000 which he relieved as follows:

	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
	£	£	£
Trading income	2,000	Nil	98,000
Trading loss brought forward			<u>(8,000)</u>
			90,000
Rental income	<u>20,000</u>	<u>28,000</u>	<u>25,000</u>
Total income	22,000	28,000	115,000
s.64 ITA 2007 claims	<u>(22,000)</u>	<u>(28,000)</u>	
Net income	<u>£Nil</u>	<u>£Nil</u>	<u>£115,000</u>

**Calculate Brendan's National Insurance Contributions for 2021/22.**

54. Daryl began trading on 1 November 2019 and prepared his first accounts to 31 January 2021 and annually thereafter. His taxable trading profits for his first two periods of account were as follows:

	£
Period ended 31 January 2021	22,500
Year ended 31 January 2022	19,500

**Calculate Daryl's trading income assessments for all relevant tax years, clearly stating the basis periods, and the dates and amount of any overlap profits.**

55. Avi has been a sole trader for many years, making up accounts to 31 December annually.

On 1 August 2020, he entered into a contract with a builder to buy a new warehouse costing £600,000, including £150,000 for the land.

The warehouse was completed on 15 January 2021 and was brought into use in the business on 1 February 2021.

Avi sold the warehouse on 1 December 2021 for £700,000, including £180,000 for the land.

- 1) **Calculate the structures and building allowances available to Avi for each relevant accounting period.**
- 2) **Explain the treatment of the disposal of the warehouse for tax purposes.**

56. Ezra has been trading for many years, usually making modest profits. However in 2021/22 he made a trading loss, but expects to make a trading profit in 2022/23 and thereafter.

He has substantial property and dividend income every year but has never made any disposals for Capital Gains Tax purposes.

**Explain the alternative ways in which the trading loss of 2021/22 can be relieved and any restrictions that may apply.**

57. Bridget, Connor and Maria have been in partnership for many years, sharing profits and losses in the ratio 2:3:5 respectively, after allowing for a salary for Bridget of £60,000 per annum.

In the year ended 30 September 2021, the partnership made a trading loss of £120,000.

**Calculate each partner's share of the trading loss for the year ended 30 September 2021.**



58. On 1 January 2022 Mary transferred her sole trader business, which she had started in 2014, to her daughter Claudette. The details of the chargeable assets transferred, the capital gains thereon and the amounts paid by Claudette to Mary were as follows:

<u>Asset</u>	<u>Market Value</u> £	<u>Original cost</u> £	<u>Gains</u> £	<u>Paid by Claudette</u> £
Freehold shop	120,000	50,000	70,000	45,000
Freehold warehouse	60,000	20,000	40,000	30,000
Goodwill	15,000	Nil	15,000	15,000

**Calculate the Capital Gains Tax payable by Mary on the transfer, assuming all beneficial reliefs are claimed.**

59. Ishmail has been in partnership with Saiqa and Gurjit since 2009, when they each contributed capital of £100,000.

Throughout this time, the partnership traded from premises that were personally owned by Ishmail. The premises had an open market rental value of £5,000 per month, but Ishmail charged the partnership rent of £2,000 per month for its use.

On 1 March 2022, Ishmail retired and sold his share of the partnership and the premises to Sunil. Ishmail's gains were £660,000 on his partnership share and £240,000 on the premises.

The disposal of the partnership share qualifies for Business Asset Disposal Relief. Ishmail had made no previous disposals of business assets.

**Explain whether the gain on the disposal of the premises qualifies for Business Asset Disposal Relief and any restrictions that may apply.**

60. Vlad began trading on 1 June 2020. On 14 March 2022 he paid a total of £39,409 to HMRC which was made up as follows:

	£
Income Tax and Class 4 National Insurance for 2020/21	19,500
Class 2 National Insurance for 2020/21	159
Capital Gains Tax payable for 2020/21	<u>10,000</u>
	29,659
First payment on account for 2021/22	<u>9,750</u>
	<u><u>£39,409</u></u>

**Explain, with calculations, any late payment interest and penalties due.**