The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

November 2023

Suggested solutions

Answer 49

	£	
Draft trading profit	142,000	
Legal expenses:		
Registering a patent for trade use	-	1
New 10-year lease on office premises	7,500	1
Premium paid on lease of office premises	20,000	1
Allowable amount: £20,000 x (50 – 9)/50 = £16,400/10 = £1,640 per annum		1
15-month period: £1,640 x 15/12	(2,050)	1
	£167,450	

Answer 50

Year ended 31 March 2023	Nissan	Toyota	Range Rover	Total	
	£	£	£	£	
TWDV brought forward	12,500	16,500			
Additions – Range Rover			39,000		1
WDA 18%	(2,250) x 60%*			1,350	1
		(2,970) x 60%*		1,782	
WDA 6%			(2,340) x 60%	1,404	1+1*+1**
TWDV carried forward	10,250	13,530	36,660		
Total				£4,536	

* For the private use restriction on all cars.
** For not time apportioning the allowance on the Range Rover.

Answer 51

1) If Luna claims actual expenses, then she would claim for 9,500/15,500 of the running costs (including capital allowances) of the car and a fair apportionment (for example, 2/3) of the running costs of the premises. 1 1

2) If Luna claims flat rate expenses in respect of the car, she would claim 9,500 x 45p = £4,275. 1
In respect of the premises she would claim for all the actual costs incurred less a flat rate deduction of £650 per month (£650 x 12 = £7,800) to reflect the non-business part of the expenditure as there are three non-business occupants. 1 1

Answer 52

1) For a change of accounting date to be valid for Income Tax purposes, the following conditions must be satisfied:
   - The accounting period of change must be no longer than 18 months; and 1
   - Imani must notify HMRC by no later than the 31 January following the end of the tax year of change; and 1
   - There must have been no previous change of accounting date in the previous five tax years or this current change must be for genuine commercial reasons. 1

2) Trading income assessment for 2022/23.
No period of account ends in the tax year, therefore take the profits of the 12 months to the new accounting date in the year; i.e. from 1 May 2021 to 30 April 2022. 1
(7/12 x £32,400) + (5/17 x £51,000) = £33,900. 1

Answer 53

	£	
Net receipts	29,750	
Add back purchase invoice already accounted for in year ended 31 December 2021	950	1
Deduct interest paid (max £500 pa)	(500)	1
Add goods for own use (cost price)	125	1
Deduct business use % of car leasing costs (80% x £4,800)	(3,840)	1
No 15% disallowance for high CO_2 emissions cars under the cash basis	-	1
	£26,485	

Answer 54

Trading income assessment 2022/23	£	
Adjusted trading profits before capital allowances	37,000	
Plus balancing charge (working)	225	1
Less overlap profits	(5,975)	1
	£31,250	

Working – capital allowances	Main pool	Levi's car	Total	
	£	£	£	
TWDV brought forward at 1 January 2022	8,000	7,700		
Disposals	(9,500)	(6,000)		1*
	(1,500)	1,700		
Balancing charge	(1,500)		(1,500)	1
Balancing allowance		(1,700) x 75%	1,275	1
TWDV carried forward	Nil	Nil		
Total (net balancing charge)			(225)	

* For no allowances other than balancing adjustments.

Answer 55

	£	
CGT:		
Net current year gains	32,000	
Less maximum s.71 ITA 2007 (working)	(12,000)	1
Revised net current year gains	20,000	
Annual exempt amount	(12,300)	1
	7,700	
Less brought forward capital loss	(7,700)	1
Taxable gains	Nil	

Working
Maximum relief against gains = lower of:

- Trading loss remaining after a s.64 ITA 2007 claim against income £(39,000 – 23,000)	£16,000	1
- Maximum amount:		
- Net current year gains	32,000	
- Less brought forward capital loss	(20,000)	
	£12,000	1

Answer 56

Will

No NIC payable by Will as he is above pensionable age. 1

Grace	£	
Share of trading profit for year ended 31/12/2022 = 40% x £150,000	60,000	
Less share of trading loss brought forward from year ended 31/12/21 = 40% x (£8,000)	(3,200)	
Profits liable to Class 4 NIC	£56,800	1
Class 2 NIC: £3.15 per week x 52 weeks	£164	1
Class 4 NIC:		
£(50,270 – 11,908) x 10.25%	3,932	1
£(56,800 – 50,270) x 3.25%	212	1
	£4,144	

Answer 57

Penalties for errors are charged as a percentage of 'Potential Lost Revenue' (PLR) to HMRC. 1

PLR in this case is Income Tax at 20% and Class 4 NIC at 10.25%, so 30.25% x £6,000 = £1,815. 1+1

Aaliyah's error is deliberate but not concealed, and as she made a prompted disclosure to HMRC the minimum penalty is 35% x £1,815 = £635. 1 1

Answer 58

The effect of incorporation relief is that no chargeable gains arise on the transfer of the chargeable assets of the sole trader business to the company as the consideration for the transfer is wholly shares in the company. 1

Instead, the gains on the chargeable assets transferred are deferred against the base cost of the shares acquired in the company. 1

The conditions for the relief to apply are as follows:

- The sole trader business being transferred is a going concern; and 1
- All of the assets of the sole trader business (with the possible exception of cash) are transferred to the company; and 1
- The consideration for the transfer is wholly or partly shares in the company. 1

Answer 59

	£	
Gain	65,000	
Less gift relief: 950,000/1,200,000 (Working) x £65,000	(51,458)	1+1
Chargeable/Taxable gain	13,542	
Capital gains tax at 10% (BADR)	£1,354	1

Working	Chargeable Business Assets (CBA) £	Chargeable Assets (CA) £	
Freehold office building	750,000	750,000	
Freehold warehouse	-	250,000	
Goodwill	200,000	200,000	
	£950,000	£1,200,000	1+1

Answer 60

1) A gain of £(250,000 – 180,000) = £70,000 arises which is shared equally between Xinia and Yvonne so that they each have a gain of £35,000. 1

2) The goodwill valuation is not a chargeable disposal for Capital Gains Tax. 1

3) When Zoe joins the partnership following a revaluation of an asset (in this case, the goodwill) there is a deemed disposal by the existing partners of one third of their share of 1
the goodwill, and therefore a chargeable gain will arise on both Xinia and Yvonne of 1/2 x 1
£240,000 x 1/3 = £40,000. As this represents a disposal of an interest in a partnership, Business Asset Disposal Relief (BADR) may be available to tax the gain at 10%, subject to 1
a £1m lifetime limit.