Candidate Number

(Ensure this number matches your candidate number on your desk label and on your candidate attendance letter)

Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module E – Taxation of Unincorporated Businesses

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

1. Freda began trading on 6 April 2016 as a sales agent. Freda has decided to use the cash basis of accounting to calculate her trading income.

   During the year ended 5 April 2017, she had the following income and expenses:

	£
<u>Income</u>	
Sales commissions received during the year	28,500
<u>Expenses</u>	
Total cost of goods purchased during the year	23,300
Loan interest paid during the year	850
Staff wages	7,400

   At 5 April 2017 goods remaining in stock were valued at £900 and there were unpaid sales commissions owed to Freda of £1,200.

   You are required to:

   1) Calculate the loss for the year ended 5 April 2017 using the cash basis of accounting.

   2) Briefly explain how the loss for the year ended 5 April 2017 could be relieved.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

2. Bob had operated as a sole trader for many years. On 5 October 2016 Bob asked Jack to join the business as a partner, sharing profits on a 60:40 basis in favour of Bob from that date.

   The trading profits of the business for the year ended 5 April 2017 were £88,000.

   Calculate the total National Insurance Contributions payable by each of Bob and Jack for 2016/17.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

3. Claire began trading on 6 April 2015. Tax adjusted trading profits/(losses) are as follows:

	Profit/(loss)
	£
Year ended 5 April 2016	7,000
Year ended 5 April 2017	(91,000)
Year ended 5 April 2018 (forecast)	10,000

Until 5 April 2015, Claire received employment income of £60,000 each year.

Prepare a loss memo to show how the £91,000 loss will be relieved assuming Claire claims to use the loss in the most beneficial manner.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER USE ONLY

4. Perry ceased trading on 28 February 2017. Tax adjusted trading profits for recent periods were as follows:

	£
Year ended 30 June 2015	44,000
Year ended 30 June 2016	36,000
Eight months ended 28 February 2017	32,000

Perry had overlap profits brought forward of £11,500.

In the final accounts, a provision had been made for a bad debt as Perry believed the debt would not be paid.

You are required to:

1) **Calculate Perry's trading income for 2016/17.**

2) **Briefly explain how a subsequent receipt in April 2018 of the bad debt should be treated for Income Tax purposes.**

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

5. Jill is a partner in The Baking Studio with Kate and Liz. Kate deals with all of the paperwork for the business and liaises with the accountant in relation to the financial accounts and partnership tax return. The 2015/16 partnership tax return was not filed until 20 April 2017.

Jill prepares her own personal tax return and submitted her 2015/16 return electronically on 18 January 2017. As the partnership information was not available, she submitted the return with her best estimate of her income from the partnership.

You are required to briefly explain:

1) **Jill's potential penalties in relation to the filing of the 2015/16 personal and partnership returns.**

2) **The action Jill needs to take to complete her filing obligations for 2015/16.**

You are not required to consider the implications of any late paid tax.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

6. Paul retired on 1 January 2017 and transferred his sole trade business to his daughter Kerry, who has continued to operate the business.

The chargeable assets transferred were a warehouse used in the business and a small storage unit which Paul had always rented out to a third party.

Details of these assets are as follows:

		Warehouse	Storage unit
		£	£
1 June 2002	Original cost to Paul	65,000	20,000
1 January 2017	Market value	140,000	42,000
1 January 2017	Amount paid by Kerry	120,000	30,000

Kerry and Paul made a joint election for gift relief to apply where possible on the transfer of the business.

Calculate the chargeable gain on the transfer of the assets on 1 January 2017 and show the base cost of each asset for Kerry.

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

7. Debbie is a sole trader who prepared accounts to 31 July annually but has now changed her accounting date and prepared accounts for the 14-month period to 30 September 2016.

   On 1 November 2015 Debbie sold a delivery van for £8,000. The van was sold for less than its cost and had only ever been used for business purposes.

   On the same day, she purchased a new car costing £21,500, with CO_2 emissions of 68g/km. From 1 November 2015 to 30 September 2016 Debbie travelled a total of 18,000 miles in the car, of which 4,500 were private in nature.

   The tax written down values at 1 August 2015 were £7,200 on the main pool and £18,800 on the special rate pool.

   Calculate the maximum capital allowances for the 14-month period to 30 September 2016.

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

8. Samir prepared accounts for the year ended 31 March 2017 including the following expenses:

    1) £8,000 for annual use of a private box at a local sports ground used to entertain clients.

    2) £850 on legal fees for the renewal of a 15-year lease on the warehouse used in his business.

    3) £3,400 on running costs for a car provided to an employee. The car is used 20% of the time by the employee personally.

    4) £80 as a donation to a local charity not made under the gift aid scheme. The donation was made in return for a small advertisement in the charity newsletter.

    5) £15,000 for replacement ovens in the on-site staff canteen which is open to all staff.

    Briefly explain whether each of these expenses are allowable or disallowable for tax purposes.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER USE ONLY

9. Adele incorporated her sole trade business on 1 August 2016 by transferring assets to a new company, ADL Ltd in exchange for 100% of the company issued share capital. The chargeable gains on incorporation were:

	£
Office building used in the business	180,000
Goodwill	100,000

Adele had taxable income for 2016/17 of £25,000 and capital losses brought forward at 6 April 2016 of £13,000. She has made an election to disclaim incorporation relief.

Calculate the Capital Gains Tax liability on the incorporation of the business.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER USE ONLY

10. Oliver and Poppy have been in partnership for many years, sharing revenue and capital profits and losses on a 60:40 basis. The partnership purchased a property for use in its trade on 1 April 2004 for £280,000.

    Poppy left the partnership on 31 March 2017, with ownership of the business property passing to her. At 31 March 2017 the property was valued at £400,000.

    You are required to calculate:

    1) The chargeable gain(s) arising on 31 March 2017 as a result of the property being transferred to Poppy.

    2) Poppy's base cost of the property after the transfer.

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

11. Nick, Tim and Caroline formed a limited liability partnership (LLP) on 1 January 2015. Nick and Tim introduced £100,000 each into the business to purchase a small office and provide working capital. The LLP agreement states that Caroline is entitled to a fixed profit share of £70,000 per annum for the four days per week she works in the business, and any remaining profits are shared equally between Nick and Tim.

Caroline works Monday to Thursday each week and Nick and Tim hold the partners' meeting on Fridays to discuss the business plans.

Briefly explain how the LLP profits are subject to Income Tax and National Insurance Contributions.

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

12. Rick sold a property on 1 March 2017 for £1.2 million with the consideration to be paid in five instalments. Rick received £200,000 on 1 March 2017 with a further four instalments of £250,000 each, payable annually thereafter.

    The total Capital Gains Tax liability in respect of the property amounts to £230,800.

    Briefly explain when the Capital Gains Tax liability is payable assuming Rick elects to pay by instalments.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

THIS PAGE IS LEFT INTENTIONALLY BLANK

DO NOT WRITE IN THIS AREA