

The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

May 2025

Suggested answers

Answer 49

HMRC are likely to continue to treat Claire as an employee as the arrangement between Claire and Filedes Ltd contains the following factors:

- Mutuality of obligation: Filedes Ltd is under an obligation to provide work and Claire is under an obligation to accept the work. 1
- Personal service: It appears that Claire must personally carry out the work required and does not have the option to send a substitute. 1
- Control: Filedes Ltd controls the days and hours and place that Claire must work. 1
- 'Wages' are paid at an hourly rate directly to Claire who bears no financial risk and does not appear to have an opportunity to profit. 1
- All equipment that Claire needs to carry out her work is provided by Filedes Ltd 1

* Credit given for other relevant points.

Answer 50

1)

Penalties for errors in a tax return are based on 'Potential Lost Revenue' (PLR) and the percentage varies according to the severity of the error and the behaviour of the taxpayer.

The PLR on the £50,000 understatement of income is 45% Income Tax and 2% Class 4 National Insurance Contributions, so $47\% \times £50,000 = £23,500$. 1+1

The error is deliberate but not concealed, therefore the maximum penalty is $70\% \times £23,500 = £16,450$. 1

The minimum penalty for a prompted disclosure is $35\% \times £23,500 = £8,225$ 1

2) Any penalties imposed must be paid within 30 days. 1

Answer 51

	£	
Income Tax:		
- $£(42,500 - 12,570) \times 20\%$	5,986	1
Class 4 NIC:		
- $(£42,500 - 12,570) \times 6\%$	1,796	1+1*
	<u>7,782</u>	
CGT	5,970	1
	<u>13,752</u>	
First payment on account for 2025/26: $50\% \times £7,782$	3,891	1
Total amount due on 31 January 2026	<u>£17,643</u>	

* For deducting £12,570 in the calculation of both the Income Tax and the Class 4 NIC.

Answer 52

	£	
Draft tax adjusted trading profit	56,000	
Deduct ISA interest received	(250)	1
Add back gift aid donation	800	1
Allow parking fine paid on behalf of an employee	-	1
Car leasing charges: allowable amount = £3,750 x 85% x 40% = <u>£1,275</u>		1
Therefore add back £3,750 – 1,275	2,475	1
Tax adjusted trading profit	<u>£59,025</u>	

Answer 53

	Main pool £	Special rate pool £	Allowances £	
TWDV brought forward	12,000	8,000		
Disposal of main pool items	(10,800)			1
Electric vehicle charging points	7,000			
100% FYA	(7,000)		7,000	1
Car		33,000		
	1,200	41,000		
Small pools allowance (as pool value ≤ £1,000 x 15/12 = £1,250)	(1,200)		1,200	1
WDA 6% x 15/12		(3,075)	3,075	1+1*
Total allowances claimed			<u>£11,275</u>	
TWDV carried forward	<u>£Nil</u>	<u>£37,925</u>		

* For time apportioning the small pools and writing down allowances.

Answer 54

	£	
Tax adjusted trading loss before capital allowances	(9,700)	
Capital allowances: <u>Add balancing charge</u> of £4,400 - £5,900 = <u>£1,500</u> x <u>80%</u>	1,200	1+1+1
Tax adjusted trading loss	<u>£(8,500)</u>	
2024/25: <u>6/4/24 – 28/02/25</u>		1
11/17 x £(8,500)	<u>£(5,500)</u>	1

Answer 55

Birthe could carry forward the loss of 2024/25 against the first available trading profits of the same trade under s.83 ITA 2007. 1

Alternatively, she could relieve the loss under s.64 ITA 2007 by carrying back against general income of 2023/24. 1

As Birthe's trading loss has been incurred in the first four tax years of trade, she could relieve the loss under s.72 ITA 2007 by carrying back against total income of the previous three tax years on a FIFO basis, starting with 2021/22. 1+1

Answer 56

Loss of the final 12 months of trade (1 May 2024 – 30 April 2025):	£	£	
1 May 2024 – 5 April 2025 = 11 months			
1/5/24 – 31/12/24 = 8 months: $8/12 \times £24,000$ profit	16,000		1
1/1/25 – 5/4/25 = 3 months: $3/4 \times £(8,000)$ loss	<u>(6,000)</u>		1
As this nets off to be a profit, it's NIL for the purposes of this working	<u>10,000</u>	Nil	1
6 April 2025 – 30 April 2025 = 1 month			
$1/4 \times £(8,000)$ loss		<u>(2,000)</u>	1
Maximum trading loss relief under s.89 ITA 2007		<u>£(2,000)</u>	
The claim should be made by 5 April 2030.			1

Answer 57

Year ended 30 September 2024	Total £	Will £	Ben £	George £	
1/10/23 – 30/6/24 = 9 months*					
£165,000 x 9/12	123,750				1*
Salary to Will: £20,000 x 9/12	<u>(15,000)</u>	15,000			1**
Balance	108,750				
Balance shared equally between Will and Ben	<u>(108,750)</u>	54,375	54,375	-	1
	Nil				
1/7/24 – 30/9/24 = 3 months*					
£165,000 x 3/12	41,250				
Salary to Will: £24,000 x 3/12	<u>(6,000)</u>	6,000			1*
Balance	35,250				
Balance shared equally	<u>(35,250)</u>	11,750	11,750	11,750	1
	Nil				
Year ended 30 September 2024	<u>£165,000</u>	<u>£87,125</u>	<u>£66,125</u>	<u>£11,750</u>	

* For correct time apportionment throughout.

** For deducting salary before profit share.

Answer 58

2023/24 – part disposal

As the £18,000 proceeds of sale is both:

- $\leq £20,000$ and 1
- $\leq 20\%$ of the value of the land at the date of the part disposal ($£18,000/£(18,000 + 190,000) \leq 20\%$) 1

Farooq would have made a claim under s.242 TCGA 1992 to defer the gain on the part disposal. 1

The £18,000 proceeds of sale are deducted from the base cost of the land for a future disposal of the remainder. 1

2024/25 – disposal of the remainder

Using proceeds of £225,000 and a reduced base cost of $£(150,000 - 18,000) = £132,000$, a chargeable gain of £93,000 arises. 1

Answer 59

	£	BADR (max) £	Other £	
Net gain on disposal of business:				
Workshop: £(850,000 – 885,000)	(35,000)			
Retail premises: £(1,200,000 – 280,000)	920,000			
Goodwill	175,000			
	<u>1,060,000</u>	1,000,000	60,000	1+1
<i>P&M, stock and debtors not chargeable assets</i>				1
Taxable gains		<u>£1,000,000</u>	<u>£60,000</u>	
Capital gains tax at		10%	20%	
Total capital gains tax (total £112,000)		<u>£100,000</u>	<u>£12,000</u>	1+1

Answer 60

<u>Sven's chargeable gain</u>	£	
Deemed proceeds to Sven = market value of 10,000 shares	100,000	
Less cost	<u>(60,000)</u>	
Gain	40,000	1
Less gift relief (balancing figure)	<u>(25,000)</u>	1
Chargeable gain (excess of actual proceeds (£75,000) over original cost (£60,000))	<u>£15,000</u>	1
 Base cost to Kirsten of 10,000 shares =		
Market value	100,000	
Less gift relief	<u>(25,000)</u>	
Base cost of 10,000 shares	<u>£75,000</u>	1
 <u>Kirsten's chargeable gain</u>	£	
Proceeds of sale of 5,000 shares	58,000	
Less deemed cost of 5,000 shares: £75,000 x 5,000/10,000	<u>(37,500)</u>	
Chargeable gain	<u>£20,500</u>	1