



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

November 2019

Suggested solutions

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## **Awareness Module E - Taxation of Unincorporated Businesses**

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1)

|   |                |    |
|---|----------------|----|
| 2018/19 Assessment based on 18 months to December 2018: | £              | 1  |
| Year ended 30 June 2018                                 | 26,000         |    |
| 6 months ended 31 December 2018                         | 21,000         |    |
| Less Overlap profits                                    |                |    |
| 6/9 x £9,000  | <u>(6,000)</u> | 2* |
|   | <u>£41,000</u> |    |

\*1 for any deduction of overlap profits, but 1 for restricting to 6 months

|             |                        |               |     |
|-------------|------------------------|---------------|-----|
| Class 4 NIC | £(41,000 – 8,424) x 9% | <u>£2,932</u> | 2** |
|-------------|------------------------|---------------|-----|

\*\*1 for follow through with same number from part 1, 2<sup>nd</sup> mark for correct use of rates/limits

2)

|                 |              |                  |   |
|-----------------|--------------|------------------|---|
| Post 5 April:   | £            | £                |   |
| 5/8 x £(24,000) |              | (15,000)         | 1 |
| Overlap profits |              | <u>(5,500)</u>   | 1 |
|                 |              | (20,500)         |   |
| Pre 5 April:    |              |                  |   |
| 3/8 x £(24,000) | (9,000)      |                  | 1 |
| 4/12 x £28,000  | <u>9,333</u> |                  | 1 |
|                 | 333          | <u>0</u>         | 1 |
| Terminal loss   |              | <u>£(20,500)</u> |   |

3)

|   |                               |               |             |               |    |
|---|-------------------------------|---------------|-------------|---------------|----|
| Year ended 30 September 2019                        |                               | <b>Donald</b> | <b>Paul</b> | <b>Sally</b>  |    |
|   |                               | £             | £           | £             | 1  |
| From 1 January 2019 only = 9/12 x £60,000 = £45,000 |                               |               |             |               |    |
| Salaries  | £10,000 / £12,000 x 9/12      | 7,500         |             | 9,000         | 1  |
| PSR   | £(45,000 – 7,500 – 9,000) / 3 | 9,500         | 9,500       | <u>9,500</u>  | 1  |
|   |                               |               |             | <u>18,500</u> |    |
| 2018/19   | 1 Jan – 5 April 2019          |               |             |               |    |
|   | 3/9 x £18,500                 |               |             | £6,167        | 2* |

\*1 for correct basis period, 1 for taking from 9 months of profit

4)

Legal fees in connection with the renewal of a short lease on the business warehouse are allowable as it is a renewal rather than a new lease, so no adjustment is necessary. 1

Legal fees on the creation of employee contracts are also allowable as these are normal trade related revenue expenses, so again no adjustment is necessary. 1

The lease premium amortisation of £1,800 needs to be added back and replaced with a deduction for the allowable part. 1

This is calculated by splitting the £18,000 premium into capital/income elements, and then by spreading the income element over the life of the lease. 1

The deduction can be calculated as £(18,000 – (18,000 x (10-1) x 2%))= £1,476 1

|   |  |                |                |                |                |   |
|---|--|----------------|----------------|----------------|----------------|---|
| 5)                                      |  | <b>2015/16</b> | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> |   |
|   |  | £              | £              | £              | £              |   |
| Trading profits                         |  |                | 1,000          | 3,000          | Nil            | 1 |
| Salary                                  |  | 18,000         |                |                |                | 1 |
| April 2016 – June 2016 (3/12 x £18,000) |  |                | 4,500          |                |                |   |
| Loss offset                             |  | (18,000)       | (2,000)        |                |                |   |

|                           |        |  |  |   |
|---------------------------|--------|--|--|---|
| <u>Loss Memo</u>          | £      |  |  |   |
| 2018/19 loss              | 20,000 |  |  |   |
| Carry back 3 years (FIFO) |        |  |  |   |
| 2015/16                   | 18,000 | <i>Must be clear this is the first claim</i> |  | 1 |
| 2016/17                   | 2,000  |  |  | 1 |

The deadline for claiming the relief will be 31 January 2021. 1

|                            |                  |  |     |   |
|----------------------------|------------------|--|-----|---|
| 6)                         |                  |  |     |   |
| Class 2 National Insurance | 52 weeks x £2.95 |  | 153 | 1 |

Class 4 National Insurance  
The trading loss from 2016/17 is set against 2017/18 trading profit of £8,000 then the balance of £10,000 is carried forward against the trading profit in 2018/19. 1  
Therefore, 2018/19 trading profit = £59,000 – (18,000 – 8,000) = £49,000 1  
£(46,350 – 8,424) x 9% 3,413 1  
£(49,000 – 46,350) x 2% 53 1

Total payable £3,619

|                          |                  |  |                  |                   |   |
|--------------------------|------------------|--|------------------|-------------------|---|
| 7)                       |                  |  | <b>Main pool</b> | <b>Allowances</b> |   |
|                          | £                |  | £                | £                 |   |
| Tax wdv b/fwd            |                  |  | 22,600           |                   |   |
| AIA addition             | 280,000          |  |                  |                   |   |
| Max = £200,000 x 15/12   | <u>(250,000)</u> |  |                  | 250,000           | 1 |
|                          |                  |  | <u>30,000</u>    |                   |   |
| FYA addition             | 11,500           |  |                  |                   |   |
| 100% FYA (not pro-rated) | <u>(11,500)</u>  |  |                  | 11,500            | 2 |
|                          |                  |  | 52,600           |                   |   |
| WDA 18% x 15/12          |                  |  | <u>(11,835)</u>  | <u>11,835</u>     | 2 |
| Tax wdv c/fwd            |                  |  | <u>40,765</u>    |                   |   |
| Total allowances         |                  |  |                  | <u>£273,335</u>   |   |

**8)**

|                     |                     | £                |   |
|---------------------|---------------------|------------------|---|
| Proceeds            | Premises only       | 400,000          | 1 |
| Base cost           | <i>Working</i>      | <u>(130,000)</u> |   |
|                     |                     | 270,000          |   |
| AEA                 |                     | <u>(11,700)</u>  | 1 |
| Taxable gain        |                     | <u>258,300</u>   |   |
| CGT at 10% (ER)     |                     | <u>£25,830</u>   | 1 |
| <i>Working</i>      |                     |                  |   |
| MV when transferred |                     | 168,000          |   |
| Original cost       |                     | <u>(102,000)</u> |   |
|                     |                     | 66,000           |   |
| Held over gain      |                     | <u>(38,000)</u>  |   |
| Charged on John     | £130,000 – £102,000 | <u>£28,000</u>   | 1 |
| Base cost for Ross  | £168,000 – £38,000  | <u>130,000</u>   | 1 |

**9)**

|  |  | £        |    |
|--|--|----------|----|
| Cash received from credit customers                        |  | 60,000   |    |
| Cash received on the sale of a piece of machinery          |  | 2,000    | 1  |
| Payments made to credit suppliers                          |  | (31,000) |    |
| Purchase of van – <i>flat rate mileage claimed instead</i> |  | 0        |    |
| Mileage claim – 10,000 x 45p / 4,000 x 25p                 |  | (5,500)  | 1  |
| Use of home claim - £10 per month                          |  | (120)    | 1  |
| Interest paid on a loan taken to purchase the van – capped |  | (500)    | 1  |
| Taxable profit for year                                    |  | £24,880  | 1* |

*\*Final mark only awarded if sales/purchases based on cash rather than invoice values and no deduction made for the van purchase*

**10)**

|  |   |
|--|---|
| Payments on account will be due on 31 January 2019 and 31 July 2019.   | 1 |
| These are based on 50% x (Income Tax and Class 4 NIC only) from 2017/18 so will amount to £3,883 each.   | 1 |
| A balancing payment is due on the 31 January 2020 to cover the remaining Income Tax and Class 4 NIC and also any capital gains tax due for the year. | 1 |
| Class 2 National Insurance is payable along with the balancing payment on 31 January 2020.   | 1 |
| The total payable 31 January 2020 will be:<br>£(6,920 + 153 + 1,420 + 500) – POAs made = £1,227  | 1 |

11)

|                  |            | Main pool      | Special<br>rate pool | Private use<br>Car | Allowances    |   |
|------------------|------------|----------------|----------------------|--------------------|---------------|---|
|                  |            | £              | £                    | £                  | £             |   |
| Tax wdv b/fwd    |            | 14,800         | 16,200               |                    |               |   |
| Employee car     | Ignore p.u |                | <u>25,000</u>        |                    |               | 1 |
| Julia's car      |            |                |                      | 30,000             |               | 1 |
|                  |            |                | 41,200               |                    |               |   |
| WDA 18% / 8%     |            | <u>(2,664)</u> | <u>(3,296)</u>       |                    | 5,960         | 1 |
| 8%               |            |                |                      | <u>(2,400)</u>     | <u>1,680</u>  | 2 |
| Tax wdv c/fwd    |            | <u>12,136</u>  | <u>37,904</u>        | <u>27,600</u>      |               |   |
| Total allowances |            |                |                      |                    | <u>£7,640</u> |   |

12)

|   |  |   |
|---|--|---|
| The disposal of the partnership share will qualify for entrepreneurs' relief as it is:  |  |   |
| A material disposal of business assets  |  | 1 |
| Owned for at least 1 year   |  | 1 |
| The sale of the premises will only qualify if it can be treated as an <u>associated disposal</u> .  |  | 1 |
| The property itself must have been used by the partnership for at least 1 year (and owned for a minimum of 3 years if it was purchased post 13 June 2016).              |  | 1 |
| The premises can only be subject to a claim for entrepreneurs' relief if Rose has not received rent from the partnership (at market rates) for the use of the premises. |  | 1 |
| Entrepreneur's relief may only be claimed if Rose has not already fully used up her £10 million lifetime limit on any previous entrepreneurs' relief gains.             |  | 1 |

Max 5