

**Awareness**

**Module E: Taxation of Unincorporated Businesses**

**November 2024**

**Suggested answers**

Answer 49

- 1) Ellie notified her chargeability by the latest date of 5 October 2023, but as she was not issued with a tax return until after 31 October 2023, she should have filed her return and paid the Income Tax and NIC due within three months of the issue of the return: 12 February 2024. 1  
1
- 2) Late filing penalty: £100. 1  
Late payment penalty as more than 30 days late:  $5\% \times £6,280 = £314$ . 1

Answer 50

- Interest payable on a loan taken out to buy shares in a close trading company is qualifying interest as although Zainab does not work for Zarm Ltd, she owns at least 5% of the shares. 1
- Interest payable on a loan taken out to buy plant and machinery (but not a car) for use in the borrower's employment is only qualifying interest in the year of the loan (2019/20) and the next three years (2020/21, 2021/22 and 2022/23), therefore it is not qualifying interest in 2023/24. 1  
1
- Qualifying interest is a deductible payment against total income in Zainab's Income Tax computation. 1
- Zainab's deductible payment in 2023/24 is  $£25,000 \times 6\% = £1,500$ . 1

Answer 51

- Revenue expenditure incurred within 7 years of the start of trade is treated as incurred on the first day of trade if it is the type of expenditure that would have been allowable had trade already commenced. 1  
1
- The advice on health and safety legislation and the advertising expenses are therefore allowable. 1
- The expenditure on fixtures and fittings is capital expenditure. This is also treated as incurred on the first day of trade and capital allowances are available. 1
- The costs of Carmen eating out at local restaurants is not wholly and exclusively for the purposes of the trade and is therefore not an allowable expense. 1

Answer 52

	Main Pool	BMW	Goods Vehicle	Allowances	
	£	£	£	£	
TWDV brought forward	925	9,800			
Zero emission goods vehicle 100% FYA			18,000	13,500	1
Disposal of BMW		(10,200)	(18,000)		
	925	(400)	Nil		
Balancing charge		400		(140)	1+1*
Small pools allowance	(925)			925	1
Total allowances claimed				<u>£14,285</u>	
TWDV carried forward	<u>£Nil</u>	<u>£Nil</u>	<u>£Nil</u>		

The wall does not qualify as plant for capital allowance purposes as it does not perform a function in the business but is merely part of the setting in which the business is carried on. 1

\* For the correct private use restriction for both the car and the goods vehicle.

Answer 53

	£	
Amount qualifying for structures and buildings allowances:		
- Land (not qualifying expenditure)	0	
- Planning permission (not qualifying expenditure)	0	1
- Site preparation prior to building	50,000	1
- Construction costs	225,000	
- Electrical and water systems (plant and machinery (integral features))	0	1
Total qualifying expenditure	<u>£275,000</u>	1*
SBA's for the year ended 31 December 2023 = 3% x £275,000	<u>£8,250</u>	1

\* For excluding the land and including the construction costs.

Answer 54

	£	
1) Claiming capital allowances and running costs:		
- Capital allowances: £45,000 x 6% x 7/12 x 12,000/18,000*	1,050	1+1
- Running costs: £4,800 x 12,000/18,000*	3,200	1*
Total allowable deduction from trading profits	<u>£4,250</u>	
2) Claiming the fixed rate mileage allowance:		
- 10,000 x 45p	4,500	1
- 2,000 x 25p	500	1
Total allowable deduction from trading profits	<u>£5,000</u>	

\* For the correct apportionment of both the capital allowances and the running costs.

Answer 55

2021/22	1 January 2022 – 5 April 2022 3/12 x £18,000	<u>£4,500</u>	1
2022/23	12 months to 31 December 2022	<u>£18,000</u>	1
2023/24	1 January 2023 – 5 April 2024	£	
	1 January 2023 – 31 December 2023	20,000	1
	1 January 2024 – 5 April 2024		
	3/12 x £24,000	6,000	1
	Less overlap profits	<u>(4,500)</u>	1
		<u>£21,500</u>	

Answer 56

	£	Leon £	Marcia £	Nuala £	
1 April 2023 – 30 September 2023					
6/12 x £150,000	(75,000)				
6/12 x interest on capital accounts	<u>(5,000)</u>	2,500	2,500		1
Shared 2:3	<u>(80,000)</u>	(32,000)	(48,000)		1
1 October 2023 – 31 March 2024					
6/12 x £150,000	(75,000)				
6/12 x Leon's salary of £24,000 pa	<u>(12,000)</u>	12,000			1
	<u>(87,000)</u>				
Shared 2:3:1		(29,000)	(43,500)	(14,500)	1
Trading loss	<u>£(150,000)</u>	<u>£(46,500)</u>	<u>£(89,000)</u>	<u>£(14,500)</u>	1*

\* For correct time apportionment throughout.

Answer 57

	BADR £	Other £	
Gains:			
Shares: £(800,000 – 150,000)	650,000		1
Land (working)	220,000	110,000	1
Taxable gains	<u>£870,000</u>	<u>£110,000</u>	
Capital gains tax at	10%	20%	
Total capital gains tax (total £109,000)	<u>£87,000</u>	<u>£22,000</u>	1+1

Working

Gain on land: £(350,000 – 20,000)	<u>£330,000</u>	1
BADR = 2,000/3,000 x £330,000 = £220,000		
Other/non BADR = 1,000/3,000 x £330,000 = £110,000		

Answer 58

	Total £	Trade use 2/3 £	Non-trade use 1/3 £	
<u>1<sup>st</sup> building:</u>				
Proceeds	528,000	352,000	176,000	
Less cost	(270,000)	(180,000)	(90,000)	
Gain	258,000	172,000	86,000	1
Less gain rolled over	(172,000)	(172,000)	-	1
Chargeable gain	£86,000	£Nil	£86,000	
<u>2<sup>nd</sup> building:</u>	£			
Proceeds	600,000			
Less base cost: £(400,000 – 172,000)	(228,000)			
Chargeable gain	372,000			1
Annual exempt amount	(6,000)			1
Taxable gain	£366,000			
Capital gains tax at 20%	£73,200			1

Answer 59

As Jack has made a series of disposals to a connected person (his daughter) within 6 years, the anti-avoidance provisions of s.19 TCGA 1992 will apply. 1+1

The effect of the provisions is that an appropriate proportion of the aggregate market value is used as proceeds in the calculation of the gains. 1

Therefore, for the disposal on 18 May 2023, the deemed proceeds will be  $30,000/55,000 \times \pounds 825,000 = \pounds 450,000$ , resulting in a gain of  $\pounds(450,000 - 30,000) = \pounds 420,000$ . 1

For the disposal on 22 July 2023, the deemed proceeds will be  $25,000/55,000 \times \pounds 825,000 = \pounds 375,000$ , resulting in a gain of  $\pounds(375,000 - 25,000) = \pounds 350,000$ . 1

Answer 60

Gains arising on incorporation	£	
	100,000	
Less incorporation relief (balancing figure)	(74,000)	
Chargeable gain after incorporation relief: $\pounds(20,000 + 6,000)$	26,000	1+1
Less current year loss	(20,000)	
Less annual exempt amount	(6,000)	
Taxable gains	£Nil	
Chargeable gain after incorporation relief		
= gains arising on incorporation x loan account/total value of assets transferred		1
$\pounds 26,000 = \pounds 100,000 \times \text{loan account}/\pounds 370,000$		
Therefore the amount left on loan was: $\pounds 26,000/\pounds 100,000 \times \pounds 370,000 = \pounds 96,200$		1+1