

## Module E Taxation of Unincorporated Businesses

1. Lynette is a graphic designer working in television production for a number of different production companies. She organises her own diary by choosing which day she visits each client. However, when at a particular production company, Teleprod Ltd, she uses their equipment and works the same hours as their employees. She is paid a flat rate fee of £400 per day.

Lynette was ill recently and she agreed with Teleprod Ltd that she could send a suitably qualified friend to do the work instead. Lynette was not paid for the work.

**Briefly explain five factors that HM Revenue & Customs will consider when determining whether Lynette was self-employed, or an employee of Teleprod Ltd.**

2. Carlos has traded for many years and drawn up accounts for the year to 31 March 2017. The following items have been deducted in the calculation of his accounting profit:

	£
Motor expenses:	
Lease hire costs for the car used by Carlos: The car has carbon dioxide emissions of 170g/km and is used 60% for business purposes.	3,600
Lease premium paid on 1 April 2016: For a new 10-year lease of an office building used in the trade.	20,000

**Calculate the necessary adjustments for each of these items when calculating the taxable trading profits for the year ended 31 March 2017.**

3. Susan, Bree and Gabrielle have been trading in partnership for many years. They share profits and losses equally after allowing for salaries and 4% per annum interest on capital.

	<u>Susan</u>	<u>Bree</u>	<u>Gabrielle</u>
	£	£	£
Salary per annum	25,000	Nil	Nil
Capital account balance	200,000	100,000	20,000

The partnership made a tax-adjusted trading profit of £30,000 in the year ended 31 March 2017.

**Calculate the allocation of the trading profits to each partner for the year ended 31 March 2017.**

4. Mike started his business on 1 November 2014 drawing up his first accounts to 30 April 2016. The tax-adjusted trading profits of his first two periods were:

	£
18 months ended 30 April 2016	90,000
Year ended 30 April 2017	145,000

**Calculate Mike's assessable trading profits for the first three tax years of trading, clearly stating the basis periods.**

5. Caleb prepared accounts for the year ended 31 March 2017. During the period he purchased the following assets:

		£
May 2016	Air conditioning system	160,000
August 2016	Machinery	90,000
January 2017	Car – CO <sub>2</sub> emissions of 165g/km	25,000

The tax written down value on the main pool at 1 April 2016 was £20,000. The car purchased in January 2017 is used by Kayla, one of Caleb's employees. During the period she used it 40% for business purposes.

**Calculate the maximum capital allowances available to Caleb for the year ended 31 March 2017.**

6. Eva had traded for many years drawing up accounts to 31 March each year, before ceasing to trade on 31 December 2016. The business made a small adjusted trading profit for the year ended 31 March 2016 but then a substantial trading loss in the final period.

In January 2017 Eva disposed of the property from which her business had traded generating a large gain.

Eva had no other income in 2016/17 except £200 of bank interest.

**Briefly explain the options available to Eva for relieving the trading loss of the nine month period ended 31 December 2016.**

**You are not required to assess which is the best option.**

7. In June 2015 Porter purchased a factory to be used in his business for £350,000. The factory also included some land that was surplus to requirements. The surplus land was sold off in December 2016 for £18,000. At that time the factory and the remaining land was valued at £400,000.

**Calculate the chargeable gain arising in 2016/17 and state the base cost of the remaining factory and land for future disposal, assuming that a small part disposal election:**

- 1) Is made.**
- 2) Is not made.**

8. In December 2017 Dylan intends to transfer his long-established manufacturing business as a going concern to a newly formed company. He will be the only shareholder. The business has two chargeable assets; a building that has increased in value significantly and goodwill which has been created since the business began.

Dylan wants to defer his immediate Capital Gains Tax liability if possible. He is a higher rate taxpayer.

**Briefly explain:**

- 1) The Capital Gains Tax implications for Dylan if he transfers all of the business assets to the company wholly in exchange for an issue of shares.**
- 2) How any gain will be taxed if the consideration for the transfer of all of the business assets is partly in the form of shares and partly in the form of cash.**

9. For many years Lee, Bob and Chuck traded in partnership sharing revenue and capital equally.

In September 2008 Chuck retired from the partnership and at that time an office building worth £360,000 was transferred to him. The partnership had purchased the office building for £90,000 in June 1990.

On 31 March 2017 Chuck sold the same office building for £750,000. He has never made any other capital disposals and has always been a higher rate taxpayer.

**Calculate the Capital Gains Tax payable by Chuck on the sale of the office building in March 2017. Clearly show your treatment of the transfer of the office building to him in September 2008.**

10. Nicollette has just started to trade from her own home as a freelance journalist, working approximately 80 hours per month. She also purchased a car that she will use 40% of the time for business purposes.

She would like to maximise the deductions against her trading profit for household bills and the costs of her car.

**Briefly explain the options available to Nicollette in relation to deductions for her household bills and car costs.**

11. **Briefly explain:**

- 1) **The date by which a newly self-employed individual, who started trading in June 2016, must first submit a tax return online.**
- 2) **The potential penalties for submitting the tax return late but within 12 months of the due date.**

12. Dana had the following tax-adjusted trading profits/(losses):

	£
2015/16	(10,000)
2016/17	30,000

She made a claim to set the 2015/16 loss against her other income in that year for Income Tax purposes.

**Briefly explain, with calculations, the National Insurance Contributions payable by Dana for 2015/16 and 2016/17.**