

The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

May 2023

Suggested solutions

Answer 49

Accounting profit	£		£	
			24,000	
Add				
Customer entertaining (staff entertaining allowable)	750			1
Fine (disallow as punishment for breach of law)	100			1
Employee theft (allowable)	-			1
			850	
Less				
Motor expenses: 2,500 x 45p	1,125			1
Use of home: £10 x 12	120			1
			(1,245)	
Tax adjusted trading profit			<u>£23,605</u>	

Answer 50

Profits ((11/12) x £72,000)			£66,000	1
	£		£	
Up to lower profits limit (LPL)	11,908	0%	0	
Between LPL and upper profits limit (UPL)	38,362	10.25%	3,932	1
Above UPL	15,730	3.25%	511	1
			<u>£4,443</u>	

Class 2 NICs are payable at the rate of £3.15 for **each week** that the individual is self-employed in the tax year. 1

They are paid as part of the balancing payment for the tax year, on **31 January 2024**. 1

Answer 51

Under the rules applying for capital allowance purposes in respect of a hire purchase contract:

- Nimra is treated as owning the van at the time the contract is entered into, and 1
- she is deemed to have incurred all of the expenditure in acquiring the van on the date that it is brought into use. 1

Therefore, she may claim capital allowances for the year ended 31 March 2023 in respect of the expenditure on acquiring the van of £21,600 (£23,328- £1,728). 1

The expenditure qualifies for the 100% annual investment allowance. 1

As there is non-business use of 80%, the capital allowances available are £17,280 (£21,600 x 100% x 80%). 1

Relief is given for the interest in calculating taxable trading income. 1

As there is non-business use, the amount deductible for the year ended 31 March 2023 is £346 (£432 x 80%).

Answer 52

Qualifying expenditure:	£	
Purchase of land – Non qualifying	-	1
Demolition of existing building	25,000	1
Structural work to new building	80,000	
Water and power systems – Non qualifying as integral features	-	1
	<u>£105,000</u>	
3% of £105,000	£3,150	1
Time apportion from date brought into use: (6/12) x £3,150	£1,575	1

Answer 53

	£	Sean £	Mandy £	Debbie £	
Profit	50,000				
Salaries	(54,000)		24,000	30,000	1
Interest	(1,200)			1,200	1
Drawings – not relevant	-				1
Residual loss (40/40/20)	<u>(5,200)</u>	(2,080)	(2,080)	(1,040)	1
		<u>(2,080)</u>	21,920	30,160	
Reallocate loss		2,080	(875)	(1,205)	1
Trading profit		<u>-</u>	<u>£21,045</u>	<u>£28,955</u>	

Working:

$$(\text{£}21,920 / (\text{£}21,920 + \text{£}30,160)) \times \text{£}2,080 = \text{£}875$$

$$(\text{£}30,160 / (\text{£}21,920 + \text{£}30,160)) \times \text{£}2,080 = \text{£}1,205$$

Answer 54

Relief may be claimed against net income under s.64 ITA 2007. This is the employment income before deduction of the personal allowance: £220,000. 1

However, the restriction on loss relief applies to a claim under s.64 ITA 2007 with the result that relief is restricted to the greater of:

- £50,000, and 1
- 25% of adjusted total income £220,000 = £55,000.

Therefore, £55,000 of the trade loss may be offset against net income. The remaining loss is £255,000. 1

As a claim has been made under s.64 ITA 2007, the remaining loss may be offset **against capital gains** under s.71 ITA 2007. 1

The amount that may be offset is restricted to the lower of:
- the remaining loss of £255,000 (above), and
- capital gains less capital losses b/w: £55,000 - £21,000 = £34,000. 1

Therefore, £34,000 is offset against the capital gains. The remaining loss is now £221,000.

Answer 55

A claim may be made in respect of the loss for 2022/23 as it is one of the first four tax years of trading.

1

	2019/20	2020/21	2021/22	Loss memo	
	£	£	£	£	
Trade profit/(loss)		18,000	14,000	(48,000)	
UK property business profit	13,000	6,000	2,000		
Net income	13,000	24,000	16,000		
Loss relief: 2019-20	(13,000)			13,000	
Loss relief: 2020-21		(24,000)		24,000	
Loss relief: 2021-22			(11,000)	11,000	
Income after loss relief	£Nil	£Nil	£5,000		4*
Loss remaining				£Nil	

1 for carry back three preceding years + 1 for on FIFO basis + 1 for offset against net income (ie including UK property business profit) + 1 for all-or-nothing basis (ie not restrict for personal allowance).

Answer 56

Sales (no adjustment for closing debtors)	£	52,000	1
Disposal proceeds		400	1
Purchases		(27,000)	
Interest (capped at £500)		(500)	1
Capital allowances on car (£13,000 at 6%)		(780)	1
Adjustment expense (opening stock)		(1,200)	1
Taxable trading income		<u>£22,920</u>	

Answer 57

	Qualifying for BAD Relief	Non-qualifying for BAD Relief	
	£	£	
Gain on shares	400,000		
Gain on factory:			
- Restrict for non-business use: (14/20 years) x £100,000	70,000	30,000	1
- Restrict for rent: £70,000 x 50%	(35,000)	35,000	1
Gain on warehouse: NQ as owned less than 3 years		40,000	1
Total	435,000	105,000	
Annual exemption		(12,300)	1
Taxable gain	435,000	92,700	
CGT at 10%/20%	£43,500	£18,540	1
Total CGT payable		<u>£62,040</u>	

Answer 58

	£	
Proceeds (MV)	300,000	
Less, cost	(110,000)	
Gain	<u>190,000</u>	1
Less, gift relief (Working)	(152,000)	
Chargeable gain	<u><u>£38,000</u></u>	

	Total £	Chargeable business assets (CBA) £	Chargeable assets (CA) £	
Premises	800,000	800,000	800,000	1
Shares (investment)	200,000	-	200,000	1
Stock	150,000	-	-	1
		<u>800,000</u>	<u>1,000,000</u>	

Gain £190,000 x (CBA £800,000 / CA £1,000,000) = gift relief of £152,000 **1**

Answer 59

Factor	Points to	Reason
Mutuality of obligation	Employment	For the term of the agreement, Cherise is obliged to do the work and the client is obliged to pay her for it
Personal service	Self-employment	Cherise may provide a substitute.
Control	Employment	Cherise is told what to do, how to do it and when to do it by.
Provision of own equipment / Degree of integration	Self-employment	Cherise is responsible for providing the equipment to do the work and will not have access to the client's premises
Financial risk / Opportunity to profit	Employment	Cherise will be paid by the hour and so does not bear financial risk / have the opportunity to profit from good work.
In business on own account / Other engagements	Self-employment	Cherise will work for other clients.

1 mark for each relevant factor and explanation up to a maximum of 5

Answer 60

	£	
Income Tax and Class 4 NICs for 2021/22 (£4,686 + £2,379)	7,065	
Less, POAs made based on IT and NICs for 2020/21 (£3,500 + £1,845)	(5,345)	1+1*
	<hr/>	
Balancing payment for 2021/22	1,720	
First POA for 2022/23		
Based on IT and NICs for 2021/22 (£7,065 x 50%)	3,532	1
	<hr/>	
	<u>£5,252</u>	
As the tax was paid after more than 30 days, the penalty is 5% of the balancing payment for 2022/23 .		1+1
5% of £1,720 =	<hr/>	
	£86	

***1 mark for deducting POA plus 1 for correct amount (ie IT and NICs, and not CGT)**