

The Chartered Institute of Taxation

Awareness

Module E Taxation of Unincorporated Businesses

May 2021

Suggested answers

Answer 49

- 1) The initial costs of setting up the business's website is capital and is therefore disallowed. 1
- 2) Training costs for the proprietor to gain new knowledge is disallowed. 1
- 3) The gifts of the pens to customers is allowable as they cost no more than £50 and carry a conspicuous advertisement for the business. 1
- 4) The payment of the speeding fine on behalf of the employee is allowable as a staff cost (the employee will be taxed on the amount paid as a benefit in kind). 1

Answer 50

	General pool £	Motor car £	Allowances £	
Capital allowances for the period ended 30 November 2020				
Tax written down value brought forward	8,000	3,000		
Disposals	(7,000)	(6,500)		1
	1,000	(3,500)		
Balancing allowance	(1,000)		1,000	1
Balancing charge (business use 70%)*		3,500	(2,450)	1*
Tax written down value carried forward	£Nil	£Nil		
Total allowances (net balancing charge)			<u>£(1,450)</u>	
Adjusted profit before capital allowances			2,200	
Plus balancing charge			1,450	1
Less overlap profits			(800)	1
Trading income assessment 2020/21			<u>£2,850</u>	

Answer 51

- The maximum claim against net income in 2019/20 is the higher of: 1
- £50,000 1
 - 25% of adjusted total income 1
- 25% of adjusted total income = 25% x £(60,000 + 160,000) = £55,000 1
- However, there is no restriction on loss relief against trading income of the same trade, so the maximum relief is £(55,000 + 60,000) = £115,000. 1

Answer 52

- Post-cessation receipts are taxed in the tax year of receipt (2020/21). However, as the receipt is within six years after the cessation of trade, Fraser can elect to have it taxed in the tax year of cessation. 1
- Relief is given for post-cessation expenses paid within seven years after the cessation of trade by deducting them as a 'qualifying payment' in arriving at Fraser's net income in the tax year in which the expense is actually incurred (2021/22). 1

Answer 53

Conditions:

- On the transfer of the business to the company, the consideration received was wholly or mainly shares (more than 80%), and 1
- Rupert must still own the shares throughout the whole of tax year in which the loss relief is claimed, and 1
- The company must still be carrying on the trade. 1

Operation:

Trading losses of the sole trader business are carried forward and relieved against Rupert's employment income and dividends received from Fitzz Ltd. 1+1

Answer 54

		£	£	
2018/19	Current Year Basis – Year ended 31 January 2019		36,000	1
2019/20	12 months to 31 May 2019			
	1 June 2018 – 31 January 2019 = 8/12 x £36,000	24,000		1
	1 February 2019 – 31 May 2019 = 4/16 x £57,600	<u>14,400</u>		1
			38,400	
2020/21	12 months to 31 May 2020			
	12/16 x £57,600		43,200	1
	Colum's overlap profits are <u>increased</u> by 8 months and £24,000 to 10 months and £28,000.			1

Answer 55

Class 2 National Insurance Contributions: £3.05 x 52 x 11/12			£145	1
Class 4 National Insurance Contributions:				
On trading income:		£		
Year ended 31 October 2020		44,000		
Period ended 28 February 2021		13,000		
Less overlap profits		<u>(3,000)</u>		
		<u>£54,000</u>		1
£9,500 x 0%				1
<u>£40,500</u> x 9%		3,645		1
£50,000				
£4,000 x 2%		<u>80</u>		1
			£3,725	

Answer 56

- 1) Geillis Ltd is a close trading company in which Duncan works and owns some shares, therefore the interest on the bank loan to purchase the shares is 'qualifying interest' and is deductible in Duncan's Income Tax computation against his total income. 1
- 2) For assets acquired via a hire-purchase agreement: 1
 - Capital allowances are available on the cash price of £18,000. 1
 - A deduction is allowed from trading profits for the interest element of each payment. 1
 - The allowable interest payment for the year ended 31 March 2021 is the total amount payable of £19,200 (£1,600 x 12) less the cash price of £18,000 = £1,200. 1

Answer 57

	Premises £	Goodwill £	Total £	
Gains	190,000	80,000	270,000	
<u>Less incorporation relief (working)</u>	<u>(142,500)</u>	<u>(60,000)</u>	<u>(202,500)</u>	1
Chargeable gain	47,500	20,000	67,500	
Capital gains tax at 10% (BADR) and 20%	£4,750	£4,000	£8,750	1+1

Working

Incorporation relief = £270,000 x 600,000/(600,000 + 200,000)	1
Relating to the premises = £190,000 x 600,000/(600,000 + 200,000))1
Relating to the goodwill = £80,000 x 600,000/(600,000 + 200,000))

Answer 58

- 1) Roger could make an amendment his 2018/19 tax return by no later than 31 January 2021, being 12 months after the due date for filing. 1
- 2) As Roger's self-assessment return for 2018/19 was submitted late, the latest date that HMRC could raise a formal enquiry is 31 October 2021, being the quarter date next following the anniversary of the actual submission date of 22 August 2020. 1
- 3) If Roger disclosed the error now it would be treated as prompted as HMRC has initiated an enquiry into his return. For a prompted, careless error, the minimum penalty is 15% of potential lost revenue. The maximum penalty is 30% of potential lost revenue 1
1
1

Answer 59

Proceeds = market value	£	
Cost	250,000	
Gain	<u>(100)</u>	1
Less gift relief		1
£249,900 x (162,000 + 73,000)/(162,000 + 73,000 + 125,000)	<u>(163,129)</u>	1+1
Chargeable gain	86,771	
Annual exemption	<u>(12,300)</u>	1
Taxable gain	<u>£74,471</u>	

Answer 60

First payment on account for 2020/21 was due on <u>31 January 2021*</u>	£	1*
£(22,000 + 4,170) = £26,170 x 50%	<u>13,085</u>	
Second payment on account for 2019/20 is due on <u>31 July 2021*</u>	<u>13,085</u>	1**
Balancing payment for 2020/21 is due on <u>31 January 2022*</u>		
Income Tax and Class 4 NIC payable for 2020/21 (£24,000 + £4,380)	28,380	1
Less payments on account	<u>(26,170)</u>	1
Balancing payment	2,210	
Plus Class 2 NIC payable for 2020/21	159	1
	<u>£2,369</u>	

* 1 mark for all three correct dates

** 1 mark for the POAs being the same correct amount