

The Chartered Institute of Taxation

AWARENESS

May 2024

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correct question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Jane started trading as a hairdresser on 1 January 2023 and immediately registered for VAT. Her taxable turnover in the year ended 31 December 2023 was £96,000 and is not expected to increase significantly in the future.

For the quarter ended 31 March 2024 her taxable turnover was £24,000 and her purchases and expenses (all standard rated) were £3,000. All figures are VAT exclusive.

Jane has heard about the Flat Rate Scheme and wonders whether it would be beneficial for her.

The Flat Rate percentage for hairdressing is 13%.

Explain:

- 1) **Whether Jane is eligible to join the Flat Rate Scheme.**
- 2) **Based on the information for the quarter ended 31 March 2024, whether Jane would benefit financially from joining the Flat Rate Scheme.**

2. Matt is a VAT registered solicitor, providing legal services to both businesses and individuals.

Pluff Ltd pays Matt a monthly amount to retain his services on an ongoing basis. The amount is paid on the fifteenth of each month and Matt issues an invoice at the end of the relevant month.

During December 2023, Matt quoted for services to be performed during January 2024 for a new customer, Steven. Steven paid a deposit on 27 December 2023. Matt completed the required services on 30 January 2024 and issued an invoice on 6 February 2024. Steven paid the balance due on 10 February 2024.

Explain the tax points of the services provided by Matt to Pluff Ltd and Steven.

3. Clem is a director of Fandangio Ltd.

During the year ended 30 April 2024, the company bought a new car which Clem uses for both business and private journeys. The company also paid a compulsory delivery charge to the dealer; insurance for the year, and for all car fuel including for Clem's private journeys.

The company does not charge Clem for the cost of the private fuel element, and Clem does not keep detailed mileage records.

Explain the VAT treatment of the costs relating to the car.

4. For the quarter ended 29 February 2024, Shazad, who makes wholly standard rated supplies, wrote off three bad debts as follows:

	<u>Date of the supply</u>	<u>Due date for payment</u>	<u>VAT inclusive amount</u>
Jemima	15 June 2023	31 July 2023	4,800
Francis	17 July 2023	31 August 2023	7,200
Jackie	12 October 2023	30 November 2023	2,400

- 1) **Explain the conditions that must be met in order for Shazad to claim bad debt relief.**
- 2) **Calculate the amount of bad debt relief Shazad can claim in the quarter ended 29 February 2024.**

5. Plyewood Ltd is a VAT registered company making wholly taxable supplies of goods. The company had the following transactions in the quarter ended 31 January 2024:

	£
Sales to UK VAT registered businesses	22,000
Sales to VAT registered businesses in the European Union (EU)	15,000
Sales to individuals in North America	8,000
Standard rated purchases and expenses – VAT registered suppliers in the UK	6,600
Consultancy services provided by a VAT registered supplier in the EU	10,000

All figures are VAT exclusive.

- 1) **Calculate the VAT payable by Plyewood Ltd for the quarter ended 31 January 2024, showing your treatment of each item.**
- 2) **State the due date for payment.**

6. Howwzer Ltd has been VAT registered for many years, selling standard rated goods to the general public. Its taxable turnover in the next 12 months is expected to be no more than £75,000.

Howwzer Ltd has therefore decided to deregister for VAT with effect from 1 June 2024.

The assets on hand on 31 May 2024 were as follows:

	<u>VAT inclusive</u> <u>cost</u>	<u>Replacement</u> <u>value at 31</u> <u>May 2024</u>
	£	£
Standard rated stock for resale (Note)	900	800
Computers and office equipment	3,750	1,800
Car used 60% privately by the sales manager	26,000	18,000

Note: 25% of the stock for resale was purchased from unregistered businesses.

Explain why Howwzer Ltd is allowed to deregister for VAT and calculate the output VAT that must be accounted for on Howwzer Ltd's final VAT return.

7. Morgana is a VAT registered trader. During December 2023 and January 2024 she was suffering cash flow issues. When completing her VAT return for the quarter ended 31 January 2024, Morgana deliberately understated the output VAT due by £9,500, although she made no attempt to conceal this.

Morgana's cash flow issues have improved, so she intends to adjust the VAT return for the quarter ended 30 April 2024 to correct the error.

Explain the correct action to be taken in relation to Morgana's error and the potential consequences for Morgana.

8. **State the five conditions that must be met for a transaction to be within the scope of VAT.**

9. Clancy has recently bought a piece of land on which the previous owner had exercised the option to tax. Clancy has engaged the services of an architect and a builder and intends to have two houses built on the land.

Once the houses are complete, Clancy will sell the freehold of both houses to Peggy. Peggy intends live in one of the houses and to rent out the other.

State the VAT rating of each of the above supplies.

10. Fourst Ltd is a VAT registered company. The following information is available for the quarter ended 31 March 2024:

	£
Taxable supplies	400,000
Exempt supplies	40,000
Input VAT	
- Attributable to taxable supplies	29,000
- Attributable to exempt supplies	2,750
- Residual	1,600

It has already been established that the simplified partial exemption tests have been failed.

Calculate, with explanations, the amount of input VAT recoverable by Fourst Ltd for the quarter ended 31 March 2024.

11. On 1 November 2023, Axel sold all 10,000 shares in Lukiss Ltd to Harry. The agreement was that Harry would pay an initial amount of £50,000 on 1 November 2023 and an additional amount on 1 February 2024. The additional amount would be 10% of Lukiss Ltd's profits in excess of £100,000 for the year ended 31 December 2023, but subject to a minimum of £7,500.

The company's profit for the year ended 31 December 2023 was eventually agreed to be £189,500.

The stock transfer form was executed on 1 November 2023 but not presented for stamping until 7 February 2024.

- 1) **Calculate the Stamp Duty payable on the shares.**
- 2) **Explain how the maximum penalty for late stamping will be calculated.**

12. Portia has recently inherited £750,000. She wants to invest in property and is considering two options:

Option 1: A house costing £660,000 which she will live in.

Option 2: A flat costing £420,000 which she will live in, and a commercial property costing £245,000 which she will rent out.

Portia is currently living with her parents and has never owned a residential property.

Calculate the Stamp Duty Land Tax (*Scots Law – Land and Buildings Transaction Tax*) payable under each of the options.

Module B: Inheritance Tax, Trusts & Estates

If you have entered for Module B you must answer Questions 13 – 24 and type your answers between the question dividers 13 – 24.

13. On 15 June 2017, Kayleigh transferred £180,000 into a discretionary trust.

On 22 July 2022, Kayleigh gave £50,000 in cash to her niece.

On 1 October 2023, Kayleigh transferred £300,000 into a second discretionary trust.

Kayleigh paid any Inheritance Tax due on the transfers.

Calculate the Inheritance Tax payable by Kayleigh on each transfer.

14. On 29 September 2023, Niklaus gave his entire holding of 20,000 shares in Skratichit plc to his daughter Felicia on the occasion of her marriage.

The shares were quoted at £6.02 – £6.10 with marked bargains of £6.02, £6.05 and £6.08.

Niklaus has already used his annual exemption for the current and previous year.

Explain the Inheritance Tax treatment of the gift of the shares.

15. On 30 April 2018, Kate gave £70,000 in cash to her son, Jordan.

On 3 June 2020, Kate made a gift into a discretionary trust for her grandchildren. The gift had a gross chargeable value of £536,250. The Inheritance Tax paid by Kate on this transfer was £42,250.

Kate died on 1 March 2024.

Calculate the Inheritance Tax due on the lifetime gifts as a result of Kate's death.

16. Zedmond died on 31 January 2024. He had been resident in the UK for 11 years but was not UK domiciled. At the date of death he owned the following assets:

- 1) An apartment in London
- 2) Euros held in a UK branch of a Spanish bank
- 3) UK Sterling held in a bank account in the Cayman Islands
- 4) Shares listed on the Hong Kong Stock Exchange
- 5) A debt owed by his cousin who lives in Germany

Explain whether each of the assets would be subject to UK Inheritance Tax on Zedmond's death.

17. Kabir died on 1 April 2008. He left his entire estate, valued at £240,000, to his wife, Amelia.

Amelia died on 10 September 2023. Her death estate included the family home she had lived in until she died, worth £300,000 and other assets worth £810,000. She left £50,000 to a national heritage museum and the remainder of her estate to her son Aadi.

Neither Kabir nor Amelia had made any lifetime gifts.

Calculate the Inheritance Tax payable on Amelia's death.

18. On 1 May 2010, Nathaniel bought farmland in the UK for £320,000 and immediately let it out to tenants.

On 30 May 2021, he gave the farmland to his daughter Daniella. The market value of the farmland on 30 May 2021 was £500,000 and the agricultural value was £390,000.

On 30 April 2023, Daniella sold the land for £750,000 and used 80% of the proceeds to buy another smaller plot of farmland in a different area of the UK. She used the remaining 20% to buy a 2% shareholding in a quoted investment company.

Nathaniel died on 1 June 2023. He had made no other previous lifetime transfers other than to use up his annual exemption on the 6th April each year.

Explain the agricultural property relief potentially available on the farmland at the date of the gift and at the date of Nathaniel's death and calculate any Inheritance Tax that may arise.

19. Kirsty is the life tenant of an interest in possession trust. The trust had the following income and expenses in 2023/24:

	£
Rental income	88,000
Bank interest	20,000
UK Dividends	4,000
Expenses:	
Letting expenses	8,000
Management expenses paid out of income	4,500

Calculate:

1) **The trust income available for distribution by the trustees for 2023/24.**

2) **The figures to be included on the R185 for Kirsty.**

20. On 1 May 2017, Oscar inherited a watch valued at £40,000 on the death of his brother Lex. The value of Lex's estate on death was £600,000 on which Inheritance Tax of £110,000 was paid by the executors.

On 30 November 2021, Oscar inherited a classic car valued at £50,000 on the death of his friend Alexis. The value of Alexis's estate on death was £725,000 on which Inheritance Tax of £120,000 was paid by the executors. Oscar sold the car on 1 March 2024 for £55,000.

Oscar died on 1 April 2024. At the date of his death he still owned the watch which was valued at £45,000 on that date.

Calculate the quick succession relief available, if any, on Oscar's death. Show your treatment of each item.

21. On 6 April 2023, Ronaldo gave cash of £450,000 to Feliz. Feliz used the cash towards the £600,000 purchase price of a house which he allowed Ronaldo to live in rent free. The annual rental value of the house is £38,400.

Ronaldo has taxable income of £350,000 annually.

Explain the tax implications of the cash gift by Ronaldo and his subsequent occupation of the house.

22. Paula created a discretionary trust, with the beneficiaries being herself, her husband, and their two children, aged five and seven. The annual gross trust income is dividend income of £20,000.

The trustees distributed £4,000 (gross) of income to each beneficiary.

Paula is a higher rate taxpayer.

Explain how the trust income is taxed in the hands of the beneficiaries.

23. Hector created the Crabb Discretionary Trust in 2003 by transferring cash of £850,000 to the trustees. This was the second trust set up by Hector since 1980.

During 2023/24, the trustees sold the following assets:

- 1) Quoted shares, realising a gain of £28,000
- 2) A painting, realising a loss of £10,000
- 3) A residential property, realising a gain of £80,000

Capital losses brought forward are £12,000.

Calculate the Capital Gains Tax payable by the trustees for 2023/24.

24. In June 2019, Seonagh made a gift to her nephew, Rodger.

Seonagh died on 22 July 2023. As a result of her death, Inheritance Tax of £15,000 became payable on the gift to Rodger.

Seonagh left her estate to her daughter. The Inheritance Tax liability on the death estate was £220,000.

State who is responsible for paying the Inheritance Tax as a result of Seonagh's death and state the due date(s) for payment.

Module C: Corporation Tax

If you have entered for Module C you must answer Questions 25 – 36 and type your answers between the question dividers 25 – 36.

25. Glassgga Ltd has been trading since 2010 and prepared accounts for the 18-month period to 30 June 2024. Results for the period include:

	£
Adjusted trading profit before capital allowances	450,000
Capital loss on the disposal of a 3% holding of shares in X Ltd on 1 July 2023	(3,000)
Capital gain on the disposal of a 2% holding of shares in Y Ltd on 31 March 2024	21,000
Qualifying charitable donation on 30 June 2023	(2,000)

The only capital expenditure incurred by the company during the period was new machinery purchased on 10 January 2023 for £150,000.

From 1 January 2024, Glassgga Ltd let out a small workshop to an unconnected third party at an annual rent of £24,000, payable monthly in advance.

The tax written down value on the main pool on 1 January 2023 was £nil.

Calculate Glassgga Ltd's taxable total profits for the period ended 30 June 2024.

26. Hospie Ltd prepared accounts for the three months to 30 June 2024. The company's taxable total profits (and augmented profits) for the period were £40,000.

- 1) Calculate the Corporation Tax payable for the period ended 30 June 2024.
- 2) State the filing date and the due date for payment for the period to 30 June 2024.

27. Chrilden Ltd's tax adjusted trading profit before capital allowances for the year ended 31 March 2024 was £730,000.

The tax written down values brought forward on 1 April 2023 were £210,000 on the main pool and £80,000 on the special rate pool.

The following disposals of plant and machinery were made during the year ended 31 March 2024:

		<u>Sale proceeds</u>
		£
Machinery	130% first year allowance was claimed on the original cost of £100,000	70,000
Solar panels	50% first year allowance was claimed on the original cost of £20,000	12,000

Calculate Chrilden Ltd's tax adjusted trading profits after capital allowances for the year ended 31 March 2024.

28. Cumpanu Ltd bought a warehouse on 1 January 2018 and paid Stamp Duty Land Tax of £3,750 on the purchase.

On 1 January 2021, the company built an extension to the warehouse. Structures and buildings allowances of £3,150 were claimed in respect of the extension up to the date of disposal.

On 1 January 2024, Cumpanu Ltd sold the warehouse, resulting in a chargeable gain. Legal fees of £3,000 were incurred on the disposal.

Explain how each of the items will be treated in calculating the chargeable gain on the sale of the warehouse, stating whether the chargeable gain will be increased or reduced as a result.

29. In April 2018, Pakak Ltd bought a building for £275,000 from an unconnected company. In March 2024, the building was sold to a third party for £320,000.

In January 2024 Pakak Ltd bought fixed plant and machinery for £290,000.

Pakak Ltd made a claim for rollover relief in respect of the disposal of the building against its purchase of the fixed plant and machinery.

Both assets were used by Pakak Ltd in its trade.

Explain the effect of the rollover relief claim on the building and the fixed plant and machinery.

30. Dugile Ltd ceased trading on 31 March 2024. In its final nine-month period, it had a trading loss of £68,000 but no other income or gains.

Its results for earlier periods were:

	<u>Year ended</u> <u>30 June 2020</u>	<u>Year ended</u> <u>30 June 2021</u>	<u>Year ended</u> <u>30 June 2022</u>	<u>Year ended</u> <u>30 June 2023</u>
	£	£	£	£
Trading profit/(loss)	40,000	25,000	22,000	15,000
Chargeable gain/(loss)	-	3,000	(5,000)	-

- 1) Calculate Dugile Ltd's taxable total profits for the earlier periods assuming that the company makes a claim for terminal loss relief in respect of its trading loss of the period ended 31 March 2024.
- 2) Calculate the amount of terminal loss relief available if, in the year ended 30 June 2023, there had been a trading loss of £15,000 instead of a trading profit.

31. Amplar Ltd has a wholly owned subsidiary company, Bapple Ltd. The companies have the following results:

	<u>Year ended</u> <u>31 March 2024</u>	<u>Year ended</u> <u>31 March 2023</u>
	£	£
<u>Amplar Ltd</u>		
Trading profit	40,000	45,000
UK property business profits	24,000	24,000
<u>Bapple Ltd</u>		
Trading profit/(loss)	(30,000)	200,000
Non-trade loan relationship credits	15,000	15,000

Bapple Ltd expects to make a profit of £300,000 in the year ended 31 March 2025.

- 1) State the ways in which Bapple Ltd could relieve its trading loss of the year ended 31 March 2024.
- 2) Assuming that the group wishes to maximise the amount of tax saved, explain how the trading loss should be relieved.

32. On 1 January 2020, Gymnaa Ltd bought 5,000 ordinary shares in Acaraa Ltd, a trading company with an issued share capital of 100,000 ordinary shares.

On 1 June 2023, Gymnaa Ltd bought a further 7,000 of the issued ordinary shares in Acaraa Ltd.

On 31 March 2024, Gymnaa Ltd sold all 12,000 shares in Acaraa Ltd.

- 1) **State the conditions that need to be satisfied in order for the substantial shareholding exemption to apply.**
- 2) **Explain whether the substantial shareholding exemption applies to the sale of the shares in Acaraa Ltd on 31 March 2024.**

33. Lundo Ltd is a large trading company. For the year ended 31 March 2024, it had a trading loss of £750,000 after deducting expenditure of £2 million qualifying for the Research and Development Expenditure Credit (RDEC).

The PAYE and Class 1 NICs liabilities relating to the staff working on qualifying R&D included in the allowable expenses amount to £275,000.

Lundo Ltd is not part of a group and does not have any outstanding liabilities due to HMRC.

- 1) **Calculate Lundo Ltd's tax adjusted trading profit or loss for the year ended 31 March 2024 assuming the company claims the RDEC.**
- 2) **Calculate the cash repayment from HMRC in respect of the RDEC.**

34. On 1 April 2023, Lazoola Ltd purchased a residential property.

During the year ended 31 March 2024 the following expenses were incurred in relation to the property:

	£
Cleaning and redecorating	2,500
Conversion of a cupboard into a bathroom	2,000
New furniture	5,000
Advertising the property for rent	1,500

The property was let to a tenant from 1 June 2023 at an initial agreed monthly rental of £1,500 a month payable in advance, increasing to £2,000 a month from 1 January 2024. The tenant paid the rent for March 2024 on 10 April 2024.

Calculate Lazoola Ltd's property business profits for the year ended 31 March 2024, showing your treatment of each item.

35. Rukat Ltd is a trading company. For the year ended 31 March 2024, it had taxable total profits of £520,000. This amount included income from an overseas permanent establishment of £45,000, on which overseas tax of £14,400 had been paid. No election to exempt permanent establishment profits has been made,

Furthermore, Rukat Ltd owns 90% of the issued share capital of Ffrenka Inc, a controlled foreign company. All Ffrenka Inc's profits of £225,000 are subject to the apportionment charge. No overseas tax was paid in respect of these profits.

Calculate Rukat Ltd's UK Corporation Tax payable for the year ended 31 March 2024.

36. Tanzanana Ltd prepares accounts to 31 March annually and is not required to pay tax by instalments.

The company tax return for the year ended 31 March 2022 was submitted on 31 October 2023 and the tax due of £11,000 was paid the same day. This is the third consecutive year that the company has been late submitting their tax return.

- 1) **State the due dates for the filing of the company tax return and the payment of Corporation Tax for the year ended 31 March 2022.**
- 2) **Explain the penalties to which Tanzanana Ltd may be liable for the late filing for the year ended 31 March 2022.**

Module D: Taxation of Individuals

If you have entered for Module D you must answer Questions 37 – 48 and type your answers between the question dividers 37 – 48.

37. For 2023/24, Sean had earnings of £48,000 and dividend income of £6,000. He made a Gift Aid donation of £500.

Calculate Sean's Income Tax liability for 2023/24.

38. Chloe is employed on a salary of £67,000 per annum. She works at home for part of the week and claims the working from home tax relief of £312 each tax year.

From 6 May 2023, she had use of a company car with a list price of £43,000 and CO₂ emissions of 121 g/km. Her employer does not include benefits in kind in the payroll.

Chloe has a tax underpayment of £1,500 from an earlier tax year included in her 2023/24 tax code.

Calculate Chloe's tax code for 2023/24.

39. Nimra owns a residential property which is let to a tenant. For 2023/24, she received rent of £9,600 and incurred the following expenditure: management fees of £1,200, repairs of £4,800 and interest of £5,000. The interest relates to a loan for £100,000 of which £90,000 was used to buy the property and £10,000 for a holiday.

Nimra has earnings of £72,000 for 2023/24.

Explain how relief will be given for the interest paid by Nimra.

40. Suresh is a director of Natins Ltd. For 2023/24, he received a salary of £55,000 and had a taxable benefit of £800 in respect of an interest-free loan from the company. On 1 March 2024, the company gave Suresh flowers costing £40 to celebrate the birth of his child.

Calculate the National Insurance Contributions payable by Suresh and Natins Ltd for 2023/24 clearly showing your treatment of all items. Ignore the Employment Allowance.

41. On 6 June 2024, Jina began to occupy a property owned by her employer. Her employer had bought the property on 1 October 2003 for £125,000 and it had a market value of £205,000 on 6 June 2024. The annual value of the property is £2,000. Jina pays rent to her employer of £150 per month.

Calculate Jina's taxable benefit for 2023/24.

42. For 2023/24, Sunita received employment income of £280,000 and her employer made pension contributions on her behalf of £55,000. She had unused annual allowance of £1,000 carried forward from 2022/23.

Calculate the annual allowance charge for 2023/24.

43. On 23 June 2023, Walt subscribed £180,000 for shares in a number of companies qualifying for the Seed Enterprise Investment Scheme.

On 7 February 2024, he sold shares in Snukrd Ltd for £42,000. He had subscribed £100,000 for the shares on 21 August 2021, claiming Income Tax relief of £30,000 (i.e. at 30%) under the Enterprise Investment Scheme.

Walt has an Income Tax liability of £82,000 for 2023/24.

Explain the tax implications of the share transactions for Walt.

44. Tom and Meg are married with two children.

For 2023/24, Meg had earnings of £56,000 and property business income of £1,500. She made personal pension contributions of £2,400 (net). Tom had earnings of £52,000.

Child benefit of £2,074 was paid to Meg for 2023/24.

Explain who is liable for the High Income Child Benefit charge for 2023/24 and calculate the amount of the charge.

45. Alice is a landlord. Her income for 2023/24 consists of property business income of £45,000.

On 1 December 2023, she sold a residential property used in her business for proceeds of £250,000, incurring estate agent's fees of £3,000. She had bought the property for £140,000.

On 27 February 2024, she granted a 99-year lease in respect of a commercial property, receiving a premium of £25,000. She had bought the freehold for £50,000. The value of the reversionary interest was £40,000.

Calculate the Capital Gains Tax payable by Alice for 2023/24.

46. Zaron sold his home to his sister on 30 April 2023 for £1.9 million. At that point, the market value of the property was £2 million.

He had bought the property on 1 May 2004. As the property required substantial repairs, he first occupied the property on 1 November 2004, and he continued to do so up to 1 November 2006 when he left the UK to study and travel abroad. He returned to live in the property on 1 May 2010 and from that date, he used 20% of the property exclusively for the purposes of his work.

Zaron's allowable costs in respect of the property total £300,000.

Calculate Zaron's chargeable gain in respect of the property.

47. Ben is UK-resident and has been at all times except for between 6 April 2019 and 5 May 2023 when he lived and worked in France. Ben made the following disposals:

<u>Date sold</u>	<u>Date acquired</u>	<u>Description</u>	<u>Gain £</u>
15 September 2019	28 August 2011	Shares in a UK trading company	65,000
8 May 2021	1 January 2012	Watch inherited from uncle	14,000
5 March 2023	10 May 2019	Residential property in France	22,000

Explain whether Ben is liable to UK Capital Gains Tax on the gains.

48. Peter and his sister, Claire, started to receive rent from a property on 1 May 2022. They had thought they would make a loss on the rent for tax purposes due to their borrowing costs. However, in January 2024, when Claire's accountant prepared her tax return, they realised their error and found that they had tax to pay.

Claire has included the property income in her tax return for 2022/23, submitted on 28 January 2024. Peter, who does not complete a tax return, wrote to HMRC on the same day, informing them of his mistake.

Explain whether Peter and Claire will be charged a penalty for failing to notify chargeability and if so, how that penalty will be calculated.

Module E: Taxation of Unincorporated Businesses

If you have entered for Module E you must answer Questions 49 – 60 and type your answers between the question dividers 49 – 60.

49. Gita prepares accounts to 31 March. On 1 July 2023, she bought a car with CO₂ emissions of 115g/km to use in her business. Her motoring costs for the period to 31 March 2024 were as follows:

	£
Purchase of car	15,000
Fuel (for 10,000 miles, of which 8,000 were for business)	1,600
Parking on business journeys	150

Calculate the tax allowable deductions for Gita in respect of the car in the year ended 31 March 2024 if she makes a claim for:

- 1) Flat rate expenses; or
- 2) Actual expenses.

50. Sam had a profit of £32,000 for the year ended 31 March 2024 after deducting the following amounts:

	£
£750 per month 'salary' for Sam	9,000
Leasing charge for a car with CO ₂ emissions of 80g/km	3,600
Bad debts provision (equal to 10% of amounts owed at 31 March 2024)	1,000
Interest charged by HMRC on tax paid late	300
Cost of calendars with business logo given to customers (unit cost was £10)	800

Sam has not elected to use the cash basis.

Calculate Sam's taxable trading income for the year ended 31 March 2024.

51. Hannah has prepared accounts for the nine months to 31 March 2024. She incurred the following expenditure during the period:

	£
Computer equipment purchased from a High Street retailer	3,000
Office furniture purchased from her brother on the closure of his business	2,000

In September 2023, she sold a van for £1,800.

All assets have been used 100% for business purposes.

The balance on the general pool at 1 July 2023 was £12,400.

Calculate the maximum capital allowances that Hannah may claim for the period ended 31 March 2024.

52. Alan has taxable trading income of £28,000 for 2023/24. In 2022/23, he had a loss of £4,000 which he offset against his other non-trading income in that year.

Alan will reach state pension age in 2024/25.

Calculate Alan's Class 4 National Insurance Contributions (NICs) for 2023/24 and explain the effect, if any, of Alan reaching state pension age on his liability to Class 2 and Class 4 NICs for 2024/25.

53. Agnes and Beatrice have been in partnership for many years, sharing profits equally. On 1 October 2023, Claire joined the partnership and the profit-sharing ratio changed to 30% Agnes, 30% Beatrice and 40% Claire.

The partnership's tax adjusted profit for the year ended 31 March 2024 was £60,000. Claire was paid a salary of £500 per month from 1 October 2023. No other salaries have been paid.

Claire took out a bank loan to buy her share of the partnership. She paid interest of £1,800 on the loan for 2023/24. The partnership has not elected to use the cash basis.

Calculate Claire's share of the partnership's profit for 2023/24 and explain if and how relief is available for the interest paid by her.

54. Up to and including 2022/23, Vijay used the cash basis to calculate his trading income. As his business has grown considerably in recent years, he is not able to use the cash basis for 2023/24.

For the year ended 31 March 2024, he had profits of £340,000 before accounting for disposal proceeds of £12,000 in respect of an item of machinery.

At 1 April 2023, he was owed £47,000 by customers, and he held stock valued at £35,000.

In June 2023, he had paid a utilities bill of £5,000 of which 50% related to the year ended 31 March 2023.

Calculate Vijay's tax adjusted trading income for 2023/24.

55. Hamidi made a small profit in 2022/23 but made a trading loss of £140,000 in 2023/24. He expects to return to profit in 2024/25.

He has significant employment income in all three tax years.

Explain how relief may be given for the trading loss.

56. Kellan has worked as a personal trainer for a number of years, visiting clients at their homes. On 1 April 2023, he signed the lease on a fitness studio and since then has divided his time between sessions at the studio and travelling to clients' homes. To help attract new clients, Kellan studied for a qualification in website design and marketing.

He has deducted the following expenses in calculating his trading profits for the year ended 31 March 2024:

- 1) Cost of travel from home to the studio
- 2) Premium paid on the grant of the lease (25 years)
- 3) Legal costs relating to the grant of the lease
- 4) Cost of the training course for his new qualification

For each expense, explain whether a deduction may be claimed in calculating Kellan's tax adjusted profit for the year ended 31 March 2024.

57. On 18 January 2024, Meg sold a building to her daughter, Louise, for £80,000. The market value of the building at that time was £230,000. Meg originally paid £55,000 for the building on 24 August 2000.

The building had been used by Meg as a warehouse in her clothing retail business. It will be used by Louise as office space and a studio for her social media business.

Meg has taxable trading income of £60,000 for 2023/24. She has not made any other disposals.

Calculate:

- 1) **Meg's Capital Gains Tax liability for 2023/24 assuming all beneficial claims and elections are made.**
- 2) **The base cost of the building for Louise.**

58. Minal disposed of the following assets in 2023/24:

<u>Bought</u>	<u>Sold</u>	<u>Asset</u>	<u>Gain</u> £
1 May 2013	30 April 2023	Entire shareholding in Mundai Ltd	400,000
1 May 2013	30 April 2023	Building	220,000
8 July 2022	27 November 2023	Entire shareholding in Tusedai Ltd	80,000

Minal was the sole shareholder in both Mundai Ltd and Tusedai Ltd. Both companies carried on a trade.

The building was used 75% by Mundai Ltd in its trade. No rent was charged.

In 2017/18, Minal claimed Entrepreneurs' Relief in respect of a gain of £120,000.

Calculate how much of Minal's lifetime limit for Business Asset Disposal Relief remains after the disposals set out above. Ignore the annual exemption.

59. Tom, Paul and Michael have traded in partnership for a number of years, sharing income and capital in the ratio 30:30:40.

On 1 January 2024, Michael transferred a building to the partnership at its market value of £300,000. He had bought the building for £140,000 in 2019.

Michael has an unrelieved capital loss of £45,000 relating to the sale of a residential property to his daughter in 2022.

Explain the Capital Gains Tax implications for Michael of the transfer of the building to the partnership and how relief may be given for his capital loss.

60. Laura and Patrick's Income Tax liabilities for 2022/23 were as follows:

	<u>Laura</u> £	<u>Patrick</u> £
Income Tax collected through PAYE	16,000	550
Income Tax chargeable on trading income	3,200	800

Laura submitted her tax return for 2022/23 online on 23 March 2024, paying her tax due for 2022/23 of £3,200 at the same time.

Calculate the interest and penalties payable by Laura in respect of 2022/23 and explain whether Laura and Patrick are required to make payments on account for 2023/24.