

# The Chartered Institute of Taxation

## AWARENESS

May 2021

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 correction 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.
- Except as set out below or indicated by additional information in the question, you may assume that 2020/21 legislation (including rates and allowances) continues to apply for 2021/22 and future years.
  - 1) You **MUST** assume that the UK remains within the European Union.
  - 2) You **MUST** ignore all temporary Covid related legislation including furlough, grants, loans and the reductions in VAT and SDLT rates.Except in relation to points 1) and 2) above, 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. Pirrer Ltd commenced trading on 1 December 2020. It made the following sales, exclusive of VAT:

<u>Month ended</u>	<u>Standard-rated</u>	<u>Zero-rated</u>	<u>Exempt</u>	<u>Total</u>
	£	£	£	£
31 December 2020	3,000	500	1,000	4,500
31 January 2021	11,000	500	1,000	12,500
28 February 2021	29,000	500	1,000	30,500
31 March 2021	18,000	500	1,000	19,500
30 April 2021	23,000	500	1,000	24,500

Standard-rated sales for April 2021 included £5,000 relating to the sale of plant and machinery used in the company's trade.

- 1) **Explain, with calculations, whether the VAT threshold was breached by 30 April 2021.**
- 2) **State by when a company must notify HMRC that it has breached the registration threshold.**

**You should only consider the historic test.**

2. Barbara is a VAT registered trader. During the quarter ended 30 April 2021, Barbara gave away goods to a number of people. Barbara had claimed input tax on the purchase of the goods.

**State the information required to determine whether the gifts are exempt from the deemed supply rules.**

3. Saleem sells standard-rated products used in the construction industry. In April 2021, Saleem was approached by a regular customer, Pete, who wished to buy some goods, and offered to undertake some repairs to Saleem's premises in part payment. Pete and Saleem agreed the value of the repairs to be £1,000, including VAT.

Pete collected the goods on 30 April. On 1 May, Pete paid cash of £4,000 and carried out the building work as the agreed full settlement for the goods. Saleem intends to raise the invoice on 12 May.

- 1) **Explain when the tax point on the supply by Saleem occurs.**
- 2) **Calculate the VAT to be charged by Saleem on the supply.**

4. Bellcob Ltd (a fully taxable company) incurred the following expenses during April 2021.
- 1) £1,000 for an event for UK customers held at a local theatre.
  - 2) £2,400 for a team-building event attended by all sales staff.
  - 3) £100 for a lunch attended by the company's directors only.
  - 4) £400 to repair a car owned by the company and made available to the Managing Director.
  - 5) £300 for lease charges on a car provided to the sales manager, which is used partly for private purposes.

All amounts are exclusive of VAT.

**Explain the amount of input VAT, if any, that the company may recover in respect of the above expenses.**

5. Edsme Ltd's results for the quarter ended 31 March 2021 were as follows:

Sales:	£
Taxable	140,000
Exempt	28,500
Input VAT:	£
Directly attributable to taxable supplies	3,800
Directly attributable to exempt supplies	1,400
Residual input VAT	600

**Calculate, with explanations, the amount of input VAT that the company may reclaim for the quarter ended 31 March 2021. Ignore simplified tests one and two.**

6. Nina commenced trading as a photographer on 1 November 2020. She registered for VAT on the same date. Nina joined the flat-rate scheme on 1 March 2021.

During the month ended 31 March 2021, Nina made sales totalling £7,200 and incurred expenses of £3,000, made up of a computer costing £2,400 and photography supplies costing £600. All figures are inclusive of VAT.

The flat-rate percentage for the photography sector is 11%. Nina is not a limited cost trader.

**Calculate Nina's saving for March 2021 from joining the flat-rate scheme.**

7. On 1 November 2020, Derek bought the freehold of a commercial building. Adelm Ltd has entered into an agreement with Derek to rent part of the building. Rent of £4,000 and a service charge of £300 will be payable by Adelm Ltd to Derek monthly, with effect from 1 June 2021. As a reflection of the state of the market and to encourage Adelm Ltd to enter into the agreement, Derek has agreed to make a one-off payment of £5,000 to the company.

**Explain how the rent, service charge and one-off payment will be rated for VAT purposes assuming that:**

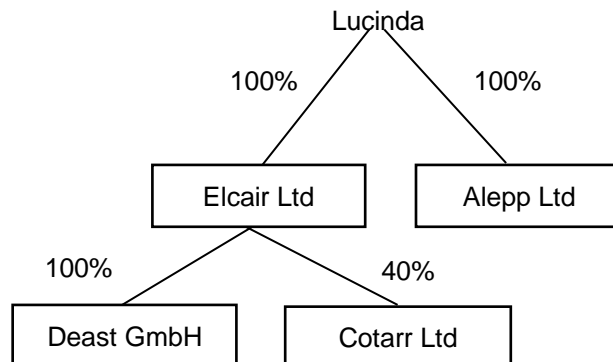
- 1) **Derek has not opted to tax the building, and**
- 2) **Derek has opted to tax the building.**

8. Nathan is a VAT-registered sole trader. He has agreed to sell his business, together with all of the assets (including an unopted commercial property), to Riley. The business will be transferred as a going concern.

**Explain:**

- 1) **The information required from Riley in order to determine if the transfer of a going concern provisions will apply with regard to the transfer.**
- 2) **Who will be responsible for the VAT affairs of the business for the period when it was carried on by Nathan.**

9. Lucinda has the following shareholdings:



All companies operate exclusively in the UK except for Deast GmbH which is based in Germany.

All companies make wholly standard-rated supplies.

**Explain:**

- 1) **For each company, whether that company may form a VAT group with Elcair Ltd.**
- 2) **The possible advantages for the companies of a VAT group registration.**

10. On 19 March 2021, HMRC issued an assessment to Bunamon Ltd for under-declared VAT of £12,000 relating to the company's VAT return for the quarter ended 30 June 2018. The error was discovered by HMRC during an assurance visit on 8 February 2021. HMRC have accepted that the error was a careless error on the part of Bunamon Ltd.

- 1) **Explain whether the assessment was raised within the relevant time limits.**
- 2) **Calculate the minimum and maximum penalty that HMRC may charge in respect of the error.**

11. In March 2021, Florence acquired the following shares:

- 1) 100 newly issued shares in Aworr Ltd for £100.
- 2) 10 shares in Blotte Ltd for £850.
- 3) 2,000 shares in Caltte Ltd for £nil. The shares, which were valued at £25,000, were a gift from Florence's grandmother.
- 4) 50 shares in Dloded Ltd for £4,970.

**Calculate, with explanations, the amount of Stamp Duty due in respect of each of the above acquisitions.**

12. The following unrelated purchases of residential properties are to take place:

- 1) Anna will buy property 1 for £340,000 as a replacement for her previous home which was sold two months ago.
- 2) Carol will buy property 2 for £120,000. Carol owns another property and is buying this one for her son to live in.
- 3) Molly will buy property 3 for £170,000. Molly is a first-time buyer and she will occupy the property as her main residence.

**Calculate the amount of Stamp Duty Land Tax (or Land and Buildings Transaction Tax) due in respect of each of the above purchases.**

## Module B: Inheritance Tax, Trusts and 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 1 November 2017, Albert made a cash gift to a discretionary trust of £400,000. Albert paid the Inheritance Tax due.

Apart from gifts out of capital of £3,000 to his friend, Annie, on 6 April each year, Albert had only made one previous gift, on 20 February 2015 of £180,000 cash to his son, Harold.

Albert died on 5 October 2020.

**Calculate the Inheritance Tax due on the gift to the discretionary trust as a result of Albert's death.**

14. Elsie, who was UK domiciled, died on 11 March 2021. Her estate comprised assets worth a total of £1.2 million, which included the family home, valued at £300,000, in which she had lived with her husband, Pablo, and daughter, Gabriella.

In her Will, she left a specific legacy of £500,000 in cash and investments to Pablo, and the remainder of her estate, including the family home, to Gabriella.

Elsie had only made one lifetime transfer of £150,000 in cash to Pablo in February 2016.

Pablo is neither domiciled nor deemed domiciled in the UK but is domiciled in Colombia and permanently left the UK for Colombia on 1 May 2021. No elections have been, or will be, made in respect of Pablo's domicile.

**Calculate the Inheritance Tax payable on Elsie's estate.**

15. Sophia died on 17 November 2020. She was born in and had a domicile of origin in Italy, but had been resident in the UK since 1 April 2004.

On 1 March 2017, Sophia made her only lifetime gift, which was of an apartment in Rome worth £225,000 to her daughter Valentina.

At the date of her death, she owned assets in both the UK and in Italy.

**Explain the Inheritance Tax treatment of:**

- 1) **Sophia's gift to Valentina on 1 March 2017.**
- 2) **The assets owned at the date of Sophia's death.**

16. Jack, who was domiciled in the UK and had never married and had made no lifetime gifts, died on 4 October 2020 leaving his entire estate to his niece, Jill.

His assets at death were as follows:

- 1) 25,000 units in the Humpty Unit Trust, quoted at £2.06 - £2.10.
- 2) Cash and personal chattels valued at a total of £528,000. The chattels included a painting valued at £19,500 which Jack had inherited as a tax-free specific gift on the death of his uncle on 18 May 2019 when it was valued at £18,000. Inheritance Tax of £88,650 was paid on his uncle's chargeable estate of £550,000.

**Calculate the Inheritance Tax payable on Jack's death.**

17. Joe died on 20 July 2020. At the date of his death, he had owned the following assets:

- 1) A 30% holding in Gallis plc, a quoted trading company in which his wife, Betty, also owned a 30% holding. Joe and Betty had owned the shares since 2014.
- 2) An office building used by Gallis plc, which Joe had purchased in 2014. Joe charged Gallis plc full market rent for the use of the building.

**Explain the Business Property Relief available, if any, on Joe's death.**

18. On 15 July 2020, Charles transferred a farm in Cumbria into a discretionary trust.

The farm had been owned by Charles's father, George, from 10 May 1962 and farmed by him until 1 January 1987, when he had let the farm to tenant farmers on a 40-year lease. Charles had inherited the farm on George's death on 30 November 2019.

**Explain the entitlement to Agricultural Property Relief, if any, on Charles' transfer of the farm into the discretionary trust.**

19. Ethel died on 14 April 2020 leaving a death estate valued at £875,000 with no nil rate band available. Included in her estate were 4,000 shares in Bucket plc, valued at £12,000 and 2,500 units in the Spade unit trust, valued at £7,000.

Ethel's executors made the following transactions following her death:

- 1) On 1 July 2020, sold the shares in Bucket plc, receiving £5,450 after selling expenses of £50.
- 2) On 17 February 2021, sold all the units in the Spade unit trust for £8,200.
- 3) On 10 March 2021, bought 3,500 shares in Sand plc for £8,500.

**1) Calculate the reduction in the value of Ethel's death estate as a result of the above transactions.**

**2) State the earliest date on which the relief can be claimed.**

20. Mick, a higher-rate taxpayer, received an income distribution from a trust on 5 April 2021. The trust's only assets are shares in quoted companies.

**Explain how Mick will be taxed on the income from the trust on the assumption that he is:**

- 1) **A beneficiary of a discretionary trust.**
- 2) **The life tenant of an interest in possession trust.**

21. On 10 April 2015, Doris, who had made no previous transfers, created a discretionary trust for her nephews and nieces, gifting cash of £1 million. The trustees paid the Inheritance Tax due of £133,800.

On 17 April 2020, the trustees distributed £150,000 cash to Doris's niece, Louise, who agreed to pay the Inheritance Tax due.

**Calculate the Inheritance Tax payable by Louise on the distribution from the trust.**

22. On 1 July 2002, William bought a six acre plot of land for £200,000. On 30 March 2015, he transferred the land into a discretionary trust when its market value was £750,000. William claimed gift relief on the transfer.

Inheritance Tax of £85,000 was paid by the trustees on the transfer.

On 17 December 2020, the trustees sold four acres of the land for £600,000. The remaining two acres were valued at £400,000.

**Calculate:**

- 1) **The chargeable gain arising on the trustees in 2020/21.**
- 2) **The base cost of the remaining two acres of land.**

23. Hannah created the Dunn Trust by transferring cash of £1 million to the trustees in 1995. This was the third trust set up by Hannah since 1980.

During 2020/21, the trustees sold the following:

- 1) A residential property, realising a gain of £22,000.
- 2) A commercial property, realising a gain of £55,000.
- 3) Some gilts, which had fallen in value by £8,000 since acquisition.

**Calculate the Capital Gains Tax payable by the trustees for 2020/21.**



24. The Chorlton Discretionary Trust was created on 6 April 2020 and is the only trust created by the settlor. The trustees have prepared the trust's Income Tax computation for 2020/21 as follows:

	<u>Non-savings income</u>	<u>Dividends</u>
	£	£
Property income	82,000	
Dividends		90,000
Trustee expenses (£1,110 x 100/92.5)		(1,200)
	<u>82,000</u>	<u>88,800</u>

The trustees have correctly calculated the Income Tax on the property income to be £36,650 but are unsure of the Income Tax treatment of the income relating to the dividends.

During 2020/21 the trustees made an income distribution of £44,000 to a beneficiary.

**Calculate the total Income Tax payable by the trustees for 2020/21 and the balance on the tax pool at 5 April 2021.**

## 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. Slid Ltd had the following tax written down values as at 1 April 2020:

	£
Main pool	126,400
Special rate pool	28,750

During the year ended 31 March 2021, the company:

	<u>Cost</u>	<u>Proceeds</u>
	£	£
Purchased a zero-emission electric vehicle	21,400	
Purchased a delivery van	18,100	
Sold plant (original cost £88,100)		90,000

The zero-emission vehicle was used 40% privately by the Managing Director.

**Calculate the company's maximum capital allowances claim for the year ended 31 March 2021.**

26. Snow4 Ltd has one 100% subsidiary and has had the following results:

<u>Period</u>	<u>Taxable Total Profits</u>	<u>Dividends received from subsidiary</u>
	£	£
Year ended 30 September 2018	680,000	10,000
Year ended 30 September 2019	790,000	10,000
Year ended 30 September 2020	900,000	10,000
Period ended 30 June 2021	720,000	10,000

**Briefly explain, with supporting calculations, whether Snow4 Ltd is required to pay its Corporation Tax liability for the period ended 30 June 2021 in instalments.**

27. In September 2017, Yurtz plc sold a freehold factory for net proceeds of £600,000. It had purchased that factory in May 1998 for £240,000.

It purchased a 40-year lease over a replacement factory in January 2018 for £710,000.

In February 2021, Yurtz plc sold the leasehold factory for £900,000.

**Calculate the total chargeable gain arising as a result of the February 2021 sale, assuming all beneficial claims have been made by Yurtz plc.**

28. In August 2020, Flashkey Ltd borrowed £900,000 from a bank for the following purposes:

	£
Purchase of new plant for use in the company's trade	400,000
Purchase of a storage unit	250,000
Purchase of a 40% shareholding in Brightz Ltd, a trading company	200,000
Additional working capital	50,000

The storage unit is half used for the trade and the other half has been rented to a tenant since September 2020.

In addition to its trading and rental income, Flashkey Ltd receives interest income each year.

**Explain the tax treatment of the interest payable on the £900,000 loan.**

29. Spart Ltd was incorporated on 17 October 2019. An interest-bearing bank account was opened in the company name on 2 November 2019 and a deposit of £50,000 was made.

The company began trading on 1 December 2019 but a decline in market conditions meant the company ceased trading on 18 March 2021.

One set of accounts was prepared to cover the whole period from 17 October 2019 to 18 March 2021.

**1) Explain the start and end dates for the company's chargeable accounting period(s).**

**2) State the due date(s) for filing of the Company Tax return(s).**

30. Nilky Ltd prepares accounts to 30 April each year.

Nilky Ltd owns an office that it rented to a mortgage advisor, Jack, for many years until he vacated it on 30 November 2020. Jack paid a monthly rent of £1,200 and made the final payment on 1 November 2020. After Jack left the office, Nilky Ltd spent £5,000 redecorating and advertising for new tenants.

The office was then let to Amanda, an architect, from 1 January 2021 for a premium of £18,000 for a five-year lease, plus quarterly rent of £3,000 payable in advance. Amanda paid a total of £21,000 on 1 January 2021 and a further £3,000 on 14 May 2021.

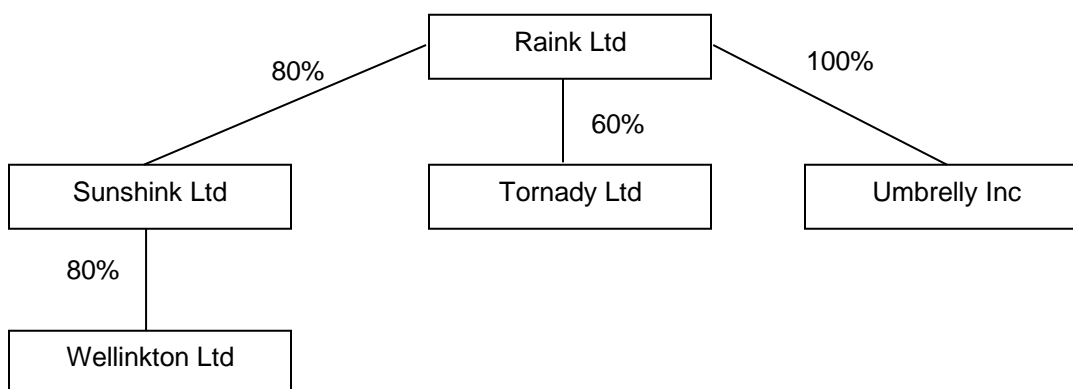
**Calculate Nilky Ltd's property income for the year ended 30 April 2021.**

31. Camury Ltd had the following results:

	<u>Year ended</u> <u>31 March</u> <u>2018</u>	<u>Period ended</u> <u>31 December</u> <u>2018</u>	<u>Year ended</u> <u>31 December</u> <u>2019</u>	<u>Year ended</u> <u>31 December</u> <u>2020</u>
	£	£	£	£
Trade profit/(loss)	125,000	98,000	(247,000)	62,000
Property income	12,000	8,000	14,000	15,000
Capital gain/(loss)	14,000	(7,000)	-	5,000
Qualifying charitable donation paid	(1,000)	-	(1,200)	-

**Calculate the Taxable Total Profit for each period, assuming relief is claimed for all losses as early as possible.**

32. The Raink group is made up as follows:



All companies make up the accounts to 30 April each year. Umbrelly Inc is a company registered and trading overseas; all the other companies are UK resident. The shares have all been owned for many years.

Raink Ltd sold a property on 1 January 2021 for £800,000 realising a gain of £400,000.

Sunshink Ltd had a capital loss brought forward at 1 May 2020 of £100,000 from a disposal made in August 2017.

Tornady Ltd had a capital loss brought forward at 1 May 2020 of £180,000 from a disposal made in November 2014.

**Explain:**

- 1) Which companies form a capital gains group.
- 2) How the capital losses of Sunshink Ltd and Tornady Ltd can be relieved by the group for the year ended 30 April 2021.

33. The directors of Bannek Ltd, a small company for R&D purposes, have prepared draft accounts to 31 March 2021 but have not yet accounted for the following costs incurred as part of a research and development project:

	£
Purchase price for building used solely for R&D project	240,000
Staff costs, including National Insurance and pension costs	
- Direct production staff	115,000
- General admin support staff	32,000
Specialist machinery and equipment	87,000
Software costs	5,800

**Explain the deductions available from profits for each of the costs.**

34. Sarah provides her services through a personal service company, Sacom Ltd.

For the year ended 5 April 2021, the company received £148,000 from relevant engagements with Treb Ltd from which it:

- 1) Paid Sarah a salary of £24,000;
- 2) Contributed £2,400 to Sarah's pension plan in August 2020; and
- 3) Paid Sarah £4,000 to cover the following expenses:
  - (a) annual train ticket costing £1,500 for travel to Treb Ltd's head office each day; and
  - (b) miscellaneous company expenses totalling £2,500 paid by Sarah personally.

**Calculate the deemed salary payment for the 2020/21 tax year.**

35. Kerby plc, a UK resident company, had UK trade profits for the year ended 31 March 2021 of £400,000.

In addition to this, the company received overseas property income of £52,000 after the deduction of overseas tax of £16,000.

The company paid a qualifying charitable donation of £10,000 during the year.

**Explain the effect of the overseas property income on the Corporation Tax payable by Kerby plc for the year ended 31 March 2021, assuming no double tax treaty exists.**

36. Checkr Ltd makes interest payments on the first of March, June, September and December each year of £10,000 to Mike and £8,000 to Nox plc, before the deduction of any tax.

On 18 October 2020, Checkr Ltd received a royalty from Tanya of £24,000.

Checkr Ltd prepares accounts to 30 September annually.

**Prepare the entries for the relevant form(s) CT61 for the period 1 October 2020 to 31 March 2021.**

## 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. Kate began employment with Strok plc on 1 August 2020 and was immediately provided with a rent-free apartment which Strok plc had purchased in May 1990 for £95,000. The apartment's market value on 5 April 2020 was £280,000 and on 1 August 2020 was £290,000.

The annual value for the apartment is £8,000. Strok plc had been renting the property to a tenant until 31 July 2020 for £1,200 per month.

**You are required to calculate Kate's assessable benefit(s) for 2020/21 and state the due date for the relevant National Insurance Contributions payable on the benefit(s).**

38. Pete had taxable income (after the deduction of his personal allowance) for 2020/21 as follows:

	£
Non-savings income	4,500
Savings income	2,000
Dividend income	3,000

Pete's wife, Kelly, works part-time earning £8,500 per annum. The couple have made an election in respect of the marriage allowance.

**Calculate Pete's Income Tax payable for 2020/21.**

39. Brandon has owned two investment properties for many years.

Property 1 is an unfurnished house which was let throughout 2020/21 for £800 per month, payable in advance on the first day of the month. The tenants paid the rent on time except that the rent payable on 1 April 2021 was paid on 18 April 2021. Brandon has a mortgage relating to this property on which interest of £4,920 was paid during 2020/21.

Property 2 is a furnished house. This property was let to tenants until 30 June 2020 for £900 per month, which was paid in advance on the first day of the month. During July 2020, Brandon replaced the living room furniture. The original furniture cost £1,800 and was sold for £180. The new furniture cost £2,400 but furniture of a similar standard to the old furniture would have cost £2,200.

**Calculate Brandon's net assessable property income for 2020/21.**

40. Josie has provided the following information in relation to her tax payments made under self-assessment:

2019/20	Balancing payment	Paid 1 April 2021
2020/21	1 <sup>st</sup> Payment on account	Paid 1 April 2021
	2 <sup>nd</sup> Payment on account	Paid 29 July 2021

**Briefly explain any interest and penalties payable by Josie in respect of these payments.**

41. Nick became a member of a personal pension plan on 6 April 2016 and has made the following gross contributions:

	£
2016/17	30,000
2017/18	20,000
2018/19	50,000
2019/20	50,000

Nick's relevant earnings in each year were between £60,000 and £80,000.

**You are required to:**

- 1) **Briefly explain why no annual allowance charge arose in 2019/20.**
  - 2) **Calculate the maximum gross contribution Nick could make into the pension plan for 2020/21 without incurring an annual allowance charge.**
42. Mandy purchased a house on 1 January 2009 which she immediately moved into. The house was sold on 31 March 2021 resulting in a substantial gain. Her use of the house during her period of ownership was as follows:

<u>Period</u>	<u>Number of months</u>	<u>Information</u>
1 January 2009 to 30 June 2013	54	Occupied as main residence
1 July 2013 to 30 September 2015	27	Employed full time overseas
1 October 2015 to 31 December 2015	3	Travelling across Europe
1 January 2016 to 30 September 2016	9	Occupied as main residence
1 October 2016 to 31 March 2018	18	Employed full time elsewhere in the UK
1 April 2018 to 31 March 2021	<u>36</u>	Living elsewhere with partner
	<u>147</u>	

During any period while Mandy was not living in the house, it was left empty.

**Briefly explain the relief available to exempt all or part of the gain on the sale of the house.**

43. Bart sold two investment properties during 2020/21.

The first was a residential property sold for £340,000, resulting in a gain of £80,000.

The second was a commercial warehouse sold for £250,000. Legal costs of £2,800 were incurred on the sale. This warehouse had been purchased eight years ago for £180,000. Two years ago, following storm damage, a repair was made to the roof costing £4,000 which the insurance company refused to cover under the landlord's policy.

The two disposals were correctly reported at the time, along with payments of the estimated Capital Gains Tax due.

Bart has taxable income, after the deduction of his personal allowance, of £28,600.

**Calculate the total Capital Gains Tax liability for Bart for 2020/21, assuming he made no other disposals during the year.**

44. Steve, who is not UK domiciled, moved to the UK in August 2017 in order to start a five-year employment contract.

He intends to return overseas when his UK employment contract finishes in July 2022.

While living in the UK, Steve has been renting out his house overseas. For 2020/21 this generated property income of £18,400, of which £5,000 was transferred to Steve's UK bank account. The remainder of the property income was left in his overseas bank account. No tax was paid on this property income in the overseas country.

**Briefly explain whether Steve's overseas property income for 2020/21 will be subject to Income Tax in the UK and the effect of any elections he may be able to make.**

45. Kelly moved to the UK on 18 October 2020 after selling her home overseas. She entered into a permanent full-time contract of employment which commenced on 5 January 2021, and purchased a house close to her employer's offices on 1 February 2021.

**Briefly explain how the automatic UK residence tests will apply to Kelly for 2020/21.**

46. Pikor Ltd has on average over 50 employees each year, such that the employment allowance is fully utilised.

Two of its employees are Becky and Sam who worked throughout 2020/21 earning a salary of £30,000 each.

Becky was 20 in September 2020 and in addition to her monthly salary received a bonus of £2,000 in December 2020.

Sam is aged 30 and receives only his monthly salary.

**You are required to calculate:**

- 1) **The National Insurance Contributions payable by Becky for 2020/21.**
- 2) **The total National Insurance Contributions payable by Pikor Ltd for 2020/21 in relation to Becky and Sam.**



47. In December 1998, Spike purchased 5,000 Ordinary shares (representing a 20% shareholding) in Ringok plc, a trading company, for £20,000 from Matt, the Managing Director of the company. Matt had purchased the shares on the incorporation of the company at their £1 par value.

Spike was appointed to the Board of Directors upon purchasing the shares. Unfortunately, Spike disagreed with the other directors of the company about the future plans for Ringok plc and so he agreed to sell his shares to the company for £140,000 in March 2021.

Spike has annual income in excess of £150,000, none of which is dividend income. He will use his Capital Gains Tax annual exempt amount for 2020/21 against other gains arising in the year.

**Calculate the tax payable by Spike on the sale of the shares if:**

- 1) **The income treatment applies.**
- 2) **The capital treatment applies.**

48. Crispor plc intends to grant share options to selected employees and is hoping to take advantage of a Company Share Option Plan.

Two key employees have been identified for the initial grant of options:

- 1) Laurence is a part-time employee (working 20 hours per week on average) and would be granted an option over 1,000 shares.
- 2) Millie is a full-time employee and would be granted an option over 5,000 shares.

The Ordinary shares in Crispor plc are currently valued at £7.20 per share, which is not expected to change significantly before the options are granted. Crispor plc will grant the share options with an exercise price of £7.20.

**Briefly explain whether the grant of options to Laurence and Millie will meet the conditions for a Company Share Option Plan.**

## 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. Claire started trading as a grocer on 1 April 2020 and prepared her first accounts to 31 March 2021. The following expenses were deducted in arriving at her accounting profit for the year:
- 1) £8,000 to a website designer for the initial costs of setting up the business's website.
  - 2) £2,500 to a local college for Claire to attend a website design course to enable her to personally maintain the website.
  - 3) £1,000 for 100 pens bearing the business's website address to give to customers.
  - 4) £250 for a speeding fine paid on behalf of Claire's part-time assistant, who incurred the fine while delivering goods to customers.

**Explain the treatment of each expense in calculating Claire's taxable trading income for the year ended 31 March 2021.**

50. Frank had been trading for many years, preparing accounts to 31 December, before ceasing to trade on 30 November 2020. He had the following tax written down values at 1 January 2020:

	£
General pool	8,000
Motor car	3,000

Frank's private use of the motor car was 30%.

On 30 November 2020, Frank sold all items in the general pool for £7,000 (no item was sold for more than original cost) and kept the motor car, which had a market value of £6,500, for his personal use.

Frank's adjusted trading profit before capital allowances for the period ended 30 November 2020 was £2,200. His overlap profits brought forward from commencement of trade were £800.

**Calculate Frank's trading income assessment for 2020/21.**

51. Jamie has been a sole trader since 2001. His trading results for the previous two tax years were as follows:

	£
2019/20	60,000
2020/21	(120,000)

Jamie's only other income is property income of £160,000 per annum.

**Explain with calculations, the maximum amount of the trading loss of 2020/21 that can be relieved against net income of 2019/20.**

52. On 8 January 2018, Fraser retired from his trade as a bespoke furniture-maker after trading for over 20 years and making substantial profits. On 15 July 2020, he received a cheque from a former customer whose debt he had written off as bad in 2017/18.

On 10 April 2021, he was contacted by another former customer with a complaint that a cabinet he had made was defective. Fraser spent £875 during April 2021 remedying the defective work.

**Explain the tax treatment of Fraser's post-cessation receipts and expenses.**

53. Rupert had been trading as a sole trader for several years. He had unrelieved trading losses totalling £37,000 at 31 December 2020.

On 1 January 2021, Rupert transferred his sole trader business to a limited company, Fitz Ltd, in exchange for a mixture of shares and cash. Rupert became an employee of Fitz Ltd on 1 January 2021 on an annual salary of £24,000.

On 25 March 2021, Rupert received a dividend from Fitz Ltd of £6,000. During 2020/21 he also received dividends of £16,000 from a portfolio investment of shares in quoted companies.

**Explain the conditions that must be satisfied in order for Rupert to claim relief for the trading losses under s.86 ITA 2007 and how the relief would operate.**

54. Colum has always prepared accounts to 31 January, but decided to change his accounting date to 31 May. His recent taxable trading profits have been as follows:

	£
Year ended 31 January 2019	36,000
16-month period ended 31 May 2020	57,600

Colum had two months' of overlap profits totalling £4,000 brought forward from commencement of trade.

**Calculate Colum's trading income assessments for all relevant tax years, clearly stating the basis periods, and the effect on Colum's overlap profits.**

55. Dougal had been a sole trader for many years, but ceased to trade on 28 February 2021.

His taxable trading profits for the year ended 31 October 2020 and the period ended 28 February 2021 were £44,000 and £13,000 respectively.

His overlap profits brought forward from commencement of trade were £3,000.

**Calculate Dougal's National Insurance Contributions for 2020/21.**

56. Duncan is a sole trader, preparing accounts to 31 March each year, and a part-time employee of Geillis Ltd, a close trading company. During 2020/21, he paid the following expenses:
- 1) £1,000 interest on a bank loan which he had taken out in 2018 to purchase shares in Geillis Ltd.
  - 2) £1,600 per month in hire-purchase payments on a machine used in his trade. Duncan acquired the machine on 1 April 2020 when the cash price was £18,000. The hire-purchase contract ran for 12 months, ending on 31 March 2021.

**Explain with calculations, the treatment of the expenses in calculating Duncan's Income Tax liability for 2020/21.**

57. On 1 January 2021 Angus transferred his sole trader business, which he had started in 2012, to a newly-formed limited company in which he is the sole shareholder. The market values of the assets transferred and the capital gains thereon were as follows:

	<u>Market Value</u>	<u>Gains</u>
	£	£
Freehold premises	660,000	190,000
Goodwill	80,000	80,000
Net current assets	60,000	N/A

The consideration for the transfer was shares with a market value of £600,000 and £200,000 to be left in a loan account with the company.

The transfer satisfies the conditions for incorporation relief to apply.

Angus has already used his annual exemption for 2020/21.

**Calculate Angus's Capital Gains Tax payable on the transfer, assuming all beneficial reliefs are claimed.**

58. Roger submitted his self-assessment tax return for 2018/19 to HMRC on 22 August 2020 and paid his Income Tax liability on that date.

Roger had omitted to include £10,000 of dividends from his company.

On 21 April 2021, Roger received notice that HMRC were to raise a formal enquiry into his 2018/19 tax return.

**Explain:**

- 1) **The latest date on which Roger could have made an amendment to his 2018/19 tax return.**
- 2) **The latest date on which HMRC could raise a formal enquiry into Roger's 2018/19 tax return.**
- 3) **The minimum and maximum penalties that could be imposed on Roger in relation to the undeclared dividends on the assumption that they were carelessly omitted.**

59. On 1 March 2021, Jenny gave 100 £1 shares (a 50% holding) in Heughan Ltd, an unquoted trading company, to her niece, Brianna when they were worth £250,000. Jenny had subscribed for the shares at par on the company's incorporation in 2004. On 1 March 2021, the company's assets were valued as follows:

	£
Freehold premises used in the trade	162,000
Freehold premises let out to tenants	125,000
Plant and machinery (cost and proceeds > £6,000)	73,000
Net current assets	40,000

**Calculate Jenny's taxable gain on the gift of the shares on the assumption that any beneficial claim is made.**

60. The following information is available for Murtagh, a sole trader.

	<u>2019/20</u>	<u>2020/21</u>
	£	£
Income Tax payable	22,000	24,000
Class 2 National Insurance Contributions	156	159
Class 4 National Insurance Contributions	4,170	4,380

**State the due dates and amounts of Income Tax and National Insurance Contributions due in respect of 2020/21.**