

Module E
Taxation of Unincorporated Businesses

1. Mark began trading many years ago and had always prepared accounts to 30 June each year. However, he decided to change his accounting date to 31 December and recent results have been as follows:

	<u>Tax adjusted trading profits</u>
	£
Year ended 30 June 2017	28,000
Year ended 30 June 2018	26,000
Six months ended 31 December 2018	21,000

Mark had nine months of overlap profits brought forward of £9,000.

Calculate:

- 1) **The trading income assessment for 2018/19.**
- 2) **The Class 4 National Insurance payable by Mark for 2018/19.**

2. Kerry's tax adjusted trading profits for the year ended 31 December 2017 were £28,000.

Kerry ceased trading on 31 August 2018. The tax adjusted trading loss for the final period to 31 August 2018 was £24,000.

Kerry had three months of overlap profits brought forward of £5,500.

Calculate the amount of the loss available for terminal loss relief.

3. Donald and Paul have been in partnership for many years. The partnership prepared accounts to 30 September each year and profits were shared equally.

Sally joined the partnership on 1 January 2019. The partnership agreement was amended from that date to allow for annual salaries of £10,000 to Donald and £12,000 to Sally, with remaining profits being shared equally between the three partners.

For the year ended 30 September 2019 the partnership's tax adjusted trading profit was £60,000.

Calculate Sally's trading income assessment for 2018/19.

4. Susan prepared accounts for the year ended 31 March 2019. The following expenses have been deducted in the calculation of the trading profit for the year:

- 1) Legal fees of £2,200 in connection with the renewal of a 30-year lease on the business warehouse.
- 2) Legal fees of £800 on the creation of employee contracts.
- 3) Lease premium amortisation of £1,800 which relates to a lease premium of £18,000 which was paid on 1 April 2018 for a new 10-year lease on a retail unit.

Briefly explain, with supporting calculations, any necessary adjustments to the trading profit for each of these items.

5. Barry began trading on 1 July 2016 and prepares accounts to 31 March each year. The tax-adjusted trading profits for recent periods were as follows:

	<u>Profit/(Loss)</u>
	£
Period ended 31 March 2017	1,000
Year ended 31 March 2018	3,000
Year ended 31 March 2019	(20,000)

Prior to 1 July 2016, Barry had been employed on an annual salary of £18,000.

Show how the loss for the year ended 31 March 2019 would be relieved if Barry makes a claim for early years' relief, stating the deadline for the claim to be made.

6. Jacob made a trading loss in the year ended 31 March 2017 of £18,000 which he claimed to offset against his property income of £30,000 for the year.

The tax adjusted trading profits for the years ended 31 March 2018 and 31 March 2019 were £8,000 and £59,000 respectively.

Calculate the total National Insurance payable by Jacob for 2018/19.

7. During the 15-month period ended 31 March 2019, Clara purchased machinery at a cost of £280,000 and a new car (CO₂ emissions 40g) at a cost of £11,500. The car is used entirely for business purposes.

The tax written down value brought forward on the main pool was £22,600.

Calculate the maximum capital allowances for the 15-month period to 31 March 2019.

8. On 1 April 2002, Ross purchased business premises from his father, John, for £130,000 when the market value was £168,000. John had originally purchased the property for £102,000 in 1998. Ross and John made a joint election for gift relief on the transfer.

On 1 January 2019 Ross sold his entire business to Ben for £500,000. The proceeds were allocated as £400,000 for the premises with the remaining £100,000 being for the stock and some small items of plant and machinery (all valued at less than £6,000 each).

Calculate the Capital Gains Tax liability for Ross on the sale of the business, clearly showing the effect of the gift relief claim in 2002.

9. Keith has provided the following information for the year ended 31 December 2018:

	£
Sales invoices issued to customers	78,000
Cash received from customers	60,000
Cash received on the sale of a piece of machinery	2,000
Purchase invoices received from suppliers	46,000
Payments made to suppliers	31,000
Payment for purchase of a replacement van	12,000
Utility expenses paid for his home (total of eight rooms)	1,850
Interest paid on a loan taken to purchase business equipment	870

Keith has elected to use the cash basis of accounting and wishes to claim flat rate expenses wherever possible. During the year ended 31 December 2018 he spent approximately six hours per week working from one room in his home and travelled 14,000 miles for business purposes.

Calculate Keith's taxable trading profit for 2018/19.

10. Jeff had the following Tax and National Insurance liabilities:

	<u>2017/18</u>	<u>2018/19</u>
	£	£
Income Tax	6,480	6,920
Class 2 National Insurance	148	153
Class 4 National Insurance	1,286	1,420
Capital Gains Tax	1,500	500

Briefly explain when the 2018/19 liabilities will be due for payment and the amount of each payment.

11. Julia, who is self employed, purchased the following cars during the year ended 31 March 2019:

<u>Car</u>	<u>Used by</u>	<u>CO₂ emissions</u>	<u>Cost</u>
			£
1	Employee – 40% private use	118g	25,000
2	Julia – 30% private use	181g	30,000

The tax written down values brought forward at 1 April 2018 were £14,800 on the main pool and £16,200 on the special rate pool.

Calculate Julia's maximum capital allowances for the year ended 31 March 2019.

12. Rose has been a partner in the Xylex Partnership for many years but retired on 30 November 2018.

She sold her partnership share to Dean who subsequently joined the partnership on 1 December 2018. The property from which the partnership trades, which Rose owned 100% in her own name was sold to the remaining partners of the business.

Briefly explain whether the two disposals will qualify for entrepreneurs' relief for Capital Gains Tax purposes.