The Chartered Tax Adviser Examination

May 2017

Suggested solutions

Application and Interaction Question 3

From: Bowham on Sea Tax Consultancy
To: Aaron Amies (`Aaron`); Bill Bowles (`Bill`); Chloe Cowen (`Chloe`) & Davina Davies (`Davina`).

Masies Partnership

Introduction
This report primarily addresses the tax implications arising from:
Aaron leaving the partnership on 31 March 2017 and Davina joining on 1 April 2017.
The proposed disposal of 12 Front Street.
The proposed purchase of 34 Sea View.

Executive Summary
Aaron will have a total tax liability of £18,140 payable by 31 January 2018.

As a result of changes in profit share ratios following Davina`s admission Bill and Chloe will each have capital gains tax liabilities of £190 payable by 31 January 2018.

Upon the disposal of 12 Front Street Bill and Chloe will each realise chargeable gains of £48,000. Following the acquisition of 34 Sea View it should be possible to make rollover relief claims to relieve these gains.

A claim for capital allowances will result in trading losses arising in the 2018/19 tax year. Bill and Chloe can use their share to reduce their taxable income for 2017/18 whilst Davina will be able to claim her share against previous employment income.

Closing Tax Position for Aaron
Tax Adjustments
Adjustments are required to the accounting profit in accordance with tax law to determine the taxable profits for any particular period of account.

Appendix A shows that tax adjusted profits for the year to 31 October 2016 amounted to £126,588 and are forecast to be £112,595 for the year ended 31 October 2017.

The tax adjusted profits then need to be allocated between the partners in accordance with the profit sharing arrangements existing for the particular period of account.

Appendix B shows how the tax adjusted profits would be allocated. Aaron's allocation is £48,196 for the year ended 31 October 2016 and £18,971 for the period ended 31 March 2017, when he retired.

Basis Periods
Each partner's share of the tax adjusted profits is allocated to tax years in accordance with the basis period rules. The basic rule is that the profits assessable for a tax year relate to those for the period of accounts ending in that tax year. Thus, in the case of Bill and Chloe (i.e. the continuing partners) the profits for the year ended 31 October 2017 will form the basis for their assessment in the 2017/18 tax year.

Where, like Masies, accounts are made up to a date not coinciding with the 5 April tax year end, special basis period rules exist to determine assessable profits in the opening and closing tax years. The opening year rules will therefore apply to Davina who has joined the partnership whilst the closing year rules will apply to Aaron who has left.

Aaron's Tax Liabilities for the Tax Year 2016/17
Under the closing year rules the basis period for the tax year of cessation runs from the end of the previous basis period to the cessation date. For Aaron for the tax year 2016/17 this is therefore the period 1 November 2015 to 31 March 2017 giving rise to assessable profits of £67,167 (£48,196 + £18,971). To ensure that profits are only taxed once over the life of the business Aaron can clam relief for overlap profits arising on the commencement of the

business under the opening year basis period rules. Appendix C shows that these amount to £4,323. His trading income assessable in the tax year 2016/2017 is therefore £62,844 (£67,167 - £4,323).

Appendix D shows that his income tax and national insurance liabilities for the 2016/17 tax year amount to £18,026 payable as follows:-

Description	Due date	£
First payment on account	31 January 2017	2,638*
Second payment on account	31 July 2017	2,638*
Balancing payment	31 January 2018	12,750

*Based on the liability for the 2015/16 tax year.

The first payments on account for the 2017/18 tax year will also be due on 31 January 2018. These will initially be based on the liability for 2016/2017 (50% x £17,880 (excluding Class 2 NIC) = £8,940 due on 31 January 2018 and again on 31 July 2018).

Aaron's income for the 2017/18 tax year has fallen to £20,000 giving rise to an expected income tax liability of £1,800 (see Appendix D). Because this liability relates to pension income it is likely that it will be collected via PAYE. As a result Aaron should claim to reduce any payments on account otherwise due for the 2017/18 tax year to nil.

Capital Gains Tax Implications of Aaron's Departure and Davina's Admission
Preliminary
For capital gains tax (CGT) purposes each partner is regarded as owning a fractional share of any chargeable assets owned by the partnership. The fractional share is determined by the way capital profits are shared by the individual partners. Each individual partner has to report any gains arising from their own fractional disposals of partnership assets on their own personal tax returns and to pay any related CGT. It should be noted that partnerships themselves are not liable for any CGT arising on the disposal of partnership assets although they are required to report the disposals on their partnership tax returns as well.

Each of the original partners will therefore be regarded as having acquired one third of the property on 1 January 2012 for an acquisition cost of £30,000.

The revaluations on 31 March 2017 in themselves will not give rise to any chargeable gains or base cost acquisitions. Each of the original partner's capital accounts will simply be increased by £65,000 ((£240,000 + £45,000 - £90,000)/3).

However, on 31 March 2017, because Aaron left Masies a change in the capital profit sharing ratio will have occurred. Aaron's share will decrease from 1/3 to nil and Bill and Chloe's shares will increase from one third to one half. This will give rise to a chargeable disposal for Aaron and an increase in Bill and Chloe's fractional base costs.

Position for Aaron
As shown in Appendix E Aaron will be regarded as having made chargeable gains on 31 March 2017 (i.e. the date of the capital profit sharing ratio changing) of £15,000 and £50,000 in relation to the disposal of his share of the partnership's goodwill and property respectively.

Assuming not already used this can be reduced by his annual exempt amount of £11,100 to leave net taxable gains of £53,900 for the 2016/17 tax year. The disposal of fractional interests in all the underlying chargeable partnership assets is deemed to be a disposal of whole or part of the business carried on by a partnership. Because of this the disposal will qualify for entrepreneurs' relief giving a CGT tax liability at 10% of £5,390 which will also be payable by 31 January 2018 together with the income tax and national insurance payments referred to above.

As mentioned above these gains will need to be reported on the partnership's and Aaron's personal tax returns for the 2016/17 tax year.

It should be noted that Aaron is able to withdraw any amounts credited to his capital and current accounts within the partnership tax free. The latter is currently estimated at £15,000. After the revaluations the capital account balance amounts to £92,000 (£30,000 (original contribution) plus £50,000 (property revaluation) + £15,000 (goodwill revaluation) - £3,000 (market value of car retained)).

Position for Bill, Chloe and Davina
On 31 March 2017 Bill and Chloe's capital profit sharing ratio increased to 50%. Their base cost for the property and goodwill will therefore become £70,000 (£30,000 (original) + £40,000 (£80,000 x 50% purchased from Aaron) and £7,500 (£15,000 x 50% purchased from Aaron) respectively.

A further change in capital profit sharing ratio occurs on 1 April 2017 when Davina joins Masies. On this date Bill and Chloe's shares decrease from 50% to 40% and Davina`s increases to 20%. As shown in Appendix E this results in chargeable gains on 1 April 2017 for both Bill and Chloe. Each will have made a gain of £3,000 for goodwill (£45,000 x 10% (reduction in their share) = £4,500 - £1,500 (£15,000 (see above) x 10%); and £10,000 for the property (£240,000 x 10% = £24,000 - £14,000 (£70,000 (see above) x 2 x 10%). Assuming that the annual exempt amount of £11,100 is fully available each will have CGT liabilities of £190 (£13,000 - £11,100 x 10%) payable by 31 January 2018.

These gains will need to be reported on the partnership's and Bill and Chloe's personal tax returns for the 2016/17 tax year.

Davina's base cost for future purposes will be £9,000 (i.e. £45,000 x 20%) for the goodwill and £48,000 (i.e. £240,000 x 20%) for the property.

Stamp Duty Land Tax
Because Masies is not a property investment partnership stamp duty land tax (SDLT) will not apply to transfers of any 'interests between partners' notwithstanding the fact that the interest includes land. No SDLT will therefore arise when Bill and Chloe increase their partnership interest following Aaron`s departure or when Davina joins.

Partners' Liability for Debts
Providing a partner has the authority to undertake a specific partnership transaction all the individual partners will have joint and several liability for the debts of the business. Joint and several liability means that a creditor can sue any one of, or all of, the partners. If a partner pays a debt disproportionately (by reference to the profit sharing arrangements) he can claim proportionate contributions from his fellow partners.

Authority for specific partnership transactions is normally implied unless a creditor is aware (e.g. by being given notice) that an individual partner is acting outside his authority, in which case the individual partner will be liable rather than the partners as a whole.

When Aaron leaves he will still be liable for any debts incurred whilst he was a partner (including the food-poisoning claim), unless creditors have released him from liability. He will also be liable for debts incurred after leaving unless creditors have received notice of his retirement. It is therefore important for Aaron to inform creditors of Masies that he has now left.

Davina, as a new partner, should be aware that she only became liable for debts of Masies after she became a partner (unless she agreed to assume responsibility for previous debts).

Proposed Disposal of 12 Front Street
The sale of this property to the unconnected developer will be a chargeable disposal for CGT purposes. Bill and Chloe will realise gains of £48,000. These are calculated as the difference between their fractional share (using the new capital profit sharing ratio) of proceeds of

£104,000 (£260,000 x 40%) less the cost of £56,000 (£70,000 (see above) less £14,000 (used in disposal of 10% to Davina on 1 April 2017).

Davina will realise a capital gain of £4,000 (£260,000 x 20% = £52,000 – £48,000 (cost)) which incidentally represents 20% of the uplift in value since she became a partner (i.e. £260,000 - £240,000 = £20,000 x 20%).

These gains will need to be reported on the partnership and personal tax returns for the 2017/18 tax year. The disposal of an individual asset used in a continuing business will not qualify for entrepreneurs' relief. In the absence of any other relieving provisions and assuming that the annual exempt amounts are fully available for this tax year as shown in Appendix E Bill and Chloe will each have a CGT liability of £7,105 whilst Davina's gain will be covered by her annual exempt amount. The liabilities for Bill and Chloe will be payable by 31 January 2019.

Purchase of 34 Sea View
Replacement of Business Assets Relief (`Rollover Relief`)
A person who:
(i) carries on a trade; and
(ii) disposes of a qualifying asset (the `old asset`) used in that person's trade; and
(iii) reinvests (or plans to reinvest) the entire disposal proceeds into another qualifying asset (the `new asset`) which is immediately brought into use (and in the case of land and buildings occupied) in that person's trade;
(iv) within a period of 12 months prior to the disposal of the old asset to 36 months after its disposal

can claim to defer the gain (and hence the payment of any related CGT) arising on the disposal of the old asset.

The gain arising on the old asset is deducted from the base cost of the new asset thus increasing any gain arising on a future disposal of the new asset. Partial relief is available when only part of the disposal proceeds is reinvested.

Looking at this in a bit more detail, a restaurant business will count as a trade for rollover relief purposes. Land and buildings are also included within the list of qualifying assets. 12 Front Street, being the old asset, has always been used in the partnership's trade. Two potential problems are, however, apparent.

The first of these is that upon a strict interpretation the condition that the new asset (34 Sea View) will immediately be brought into trade use will not be satisfied. You are expecting that there will be a break of around two months whilst the building works are undertaken. Case law indicates that if an asset is ready for use when possession is obtained relief will be denied if it not taken into immediate use. However, if there is a commercial reason for a delay (e.g. alterations are required) relief should not be denied providing the asset is brought into trade use as soon as practical without any unnecessary delay.

There is also a concession in this area which states that qualifying assets may be treated as brought into trade use upon acquisition where (i) capital expenditure is incurred on enhancing the asset; and (ii) the improvement works begin as soon as practicable after the assets acquisition and are completed within a reasonable period; and (iii) the asset is taken into trade use as soon as practically possible after the completion of the work; and (iv) the asset is not used for non-trade purposes in the period between acquisition and being brought into trade use. These conditions are consistent with your plans so providing they are actually satisfied the break in trading envisaged should not impede a rollover relief claim being made.

There is also a need to consider whether any restriction is required for partial reinvestment of the proceeds of 12 Front Street. It is anticipated that the new property will cost £250,000 which is below the expected sales proceeds of £260,000 for the existing property.

Once acquired, however, this property will be subject to extensive refurbishment costs. Although this does not result in the acquisition of a new asset by concession capital expenditure on improvements to qualifying assets that are taken into trade use (and occupation) on completion of the enhancement work will effectively be treated as relating to the acquisition of the new asset.

Identification of Further Capital Expenditure
Whilst the cost of repairs to restore an asset to its former condition is generally deductible for income tax purposes where a newly acquired asset either (i) cannot immediately be brought into trade use without being repaired; or (ii) can only be so used for a short period with its long term use dependent upon the repairs being carried out; or (iii) the purchase price of the asset reflected the repairs needed to make it useable it is very likely that the cost of such repairs will be treated as being part of the capital cost of the asset.

Applying this because of (ii) and (iii) it would appear that the £35,000 costs for roof/chimney repairs will therefore be treated as capital in nature (see further below). In addition the costs of reconfiguring the internal layout of the building (£15,000) and altering the building to install equipment (£2,500) as well as the costs associated with rewiring, plumbing/sanitary-ware and heating (£45,000) will also count as capital in nature.

At least an additional £97,500 of capital expenditure is therefore identifiable as deemed relating to the acquisition of a new asset, taking the total acquisition cost to £347,500 (£250,000 + £97,500). There should therefore be no restriction of rollover relief due to only partial reinvestment of the disposal proceeds from the old asset.

It is perhaps worth pointing out that the fact that some of these costs will also qualify for capital allowances (see later) has no significance in determining whether they are deemed treated as qualifying for the purposes of rollover relief.

Whilst considering the tax treatment of the building works to be undertaken it should be noted that an income tax deduction should be available for both the exterior and internal decorating costs. These are regarded as normal wear and tear maintenance costs that will need doing every few years, so the fact that they are being incurred just after the acquisition of the property should not be significant.

Time Limit for Rollover Relief Claims
Based on the preceding analysis it would seem that a full claim for rollover relief could be made. It should be noted that just as it is the individual partners who are liable to income tax and CGT rather than the partnership itself it is the individual partners who make a claim for rollover relief (if they consider appropriate based on their personal circumstances) rather than the partnership itself.

Bill and Chloe could therefore make claims to rollover their gains of £48,000 into the base cost of the new property. Such claims would mean that the CGT otherwise due on 31 January 2019 would no longer be payable by that date. It is perhaps worth noting that if there is a delay in acquiring the new premises such that this takes place after 5 April 2018 it should still be possible to make a provisional rollover relief claim to defer these gains. Because Davina's gain is only £4,000 and already likely to be covered by her annual exempt amount a rollover claim for her would not be appropriate.

Claims for rollover relief need to be made within four years of either the end of the tax year in which (i) the disposal of the old asset; or (ii) the acquisition of the new asset occurs, whichever is the later. If both the property sale and purchase occur at the end of October 2017 the time limit for the claims will therefore be by 5 April 2022.

Capital Allowances
If a person carrying on a trade incurs qualifying expenditure on plant & machinery, that person will be entitled to capital allowances. These are given as a deduction in arriving at the taxable profits of the trade for the period of account in which the expenditure was incurred. They are generally given by way of writing down allowances (WDAs) either at the rate of 8% or 18% (on a reducing balance basis) or annual investment allowance (AIA) at the rate of 100%. It

should be noted that not every item of plant & machinery qualifies for a 100% AIA (e.g. cars are excluded). In addition only expenditure up to certain threshold – which is currently £200,000 - will qualify.

It should be noted that not all capital expenditure falls within the definition of qualifying plant & machinery. Unless it falls within certain statutory qualifying categories expenditure on land and buildings (including expenditure on fixtures which become part of the building) will not qualify. This is because it is regarded as the (passive) setting in which the trade operates rather than being equipment (actively) used for carrying on the trade.

Items serving a function in the trade will qualify as plant & machinery (attracting a WDA at the rate of 18% or 100% AIA). These include the proposed £50,000 to be spent on new equipment and furniture. This will also include items such as specialist electrical works (over and above that regarded as normal for a building simply to function) required to operate the equipment within the trade. This would be the case for the £3,000 portion of the proposed rewiring costs.

The £2,500 to be incurred on building alterations required to install equipment to be used in the trade also qualifies as plant & machinery.

The law also treats certain items (which have been the subject of legal cases - known as `List C` items) as qualifying plant & machinery (again attracting a WDA at the rate of 18% or 100% AIA). For businesses where it is considered important (which includes restaurants) these include artworks having the function of creating an atmosphere conducive to customer comfort and the supply/installation of sanitary ware. The respective costs of £5,000 and £15,000 should therefore qualify as plant & machinery. It should be noted, however, that a recent case found that wooden wall panelling which was considered unexceptional in nature did not qualify. It seems unlikely that the £3,000 to be spent on wooden panelling will therefore qualify.

The law also allows certain items that would otherwise be regarded as part of a building to qualify. These are referred to as `integral features` and include `normal` electrical (including lighting) systems; cold water systems and space or water heating systems. Such items will, however, only attract a WDA rate of 8% or 100% AIA. The proposed £27,000 (£30,000 - £3,000 (included above)) to be spent on these items will therefore qualify.

You are able to allocate expenditure to attract the 100% AIA however you choose. Where relevant to maximise the capital allowances available this will therefore be allocated to expenditure otherwise only attracting a WDA at 8% rather than 18%. In your case total qualifying expenditure amounts to £102,500 (£50,000 + £3,000 + £2,500 + £5,000 + £15,000 + £27,000) which is less than the £200,000 threshold so should all attract a 100% AIA.

Loan Interest

Interest payable on any bank loan taken out to help with the building works will be deductible on an accruals basis in arriving at the taxable trading income of the partnership.

Use of Losses

It is noted that tax adjusted profits for the year ending 31 October 2018 before capital allowances are forecast to be £80,000. This presumably takes account of additional tax deductions for bank loan interest and the cost of cutlery/glasses. It seems clear therefore that after taking a deduction for available capital allowances, an overall trade loss will arise for this period.

Such losses will be allocated in accordance with the revenue profits sharing ratio applicable for that period.

Individual partners are able to use their allocated losses how they wish. For example, Bill and Chloe as continuing partners can use their losses against other income arising in the tax year of loss (i.e. 2018/19 tax year) and/or the preceding tax year (i.e. 2017/18 tax year) or carry their losses forward to use against their share of future profits from the same trade. Appendix

B shows that their assessable profits for the 2017/18 tax year (based on profits for the period of account ending 31 October 2017) are £40,244. To gain loss relief as early as possible it would seem sensible to claim that their losses are relieved against these profits. It should be noted that this also reduces profits chargeable to and hence their liability to Class 4 NIC for this tax year.

Davina only joined the partnership on 1 April 2017. If she ends up with a trading loss, as well as being able to use this against other income or carried forward as indicated above she will be able to also claim to set off the loss against other income occurring in the three tax years preceding the tax year of loss (i.e. other income in 2017/18, 2016/17 and 2015/16) applying the loss to the earliest tax year first. She could therefore use the loss first against any employment income received in the 2015/16 tax year thus obtaining a tax refund (together with any related repayment supplement (i.e. interest on overpaid tax resulting).

It is possible that HMRC may look at the break in the business for refurbishing the new property as creating a new business, which could cause problems with any carry forward loss claims. This seems unlikely, however, as the proposed break in trade is for a short duration, will end as quickly as possible and is entirely for commercial reasons.

Stamp Duty Land Tax

The purchase of 34 Sea View will attract an SDLT charge on the consideration given for the land transaction of £2,000 (£250,000 - £150,000 = £100,000 x 2%) payable within 30 days of the completion date.

Value Added Tax (`VAT`)

HMRC will need to be informed of the change in the partnership`s members within 30 days. There will be no requirement to re-register the partnership.

Because the new property will be used in the `taxable` trade any VAT on the refurbishment costs should be recoverable. The sale of the old property will, however, be an exempt supply for VAT purposes so, unless permissible under the de-minimis partial exemption rules, VAT on any disposal costs etc. will not be recoverable.

Appendix A

Tax Adjusted Profits

Year ended			31/10/2016	31/10/2017	Note
			£	£	
Net profit per accounts			105,050	88,650	
Add:	partners' salaries	Aaron	9,000	5,000	1
	professional			7,500	2
	entertaining		1,150		3
	motor expenses		5,320	6,237	4
	depreciation		6,500	5,500	
			127,020	112,887	
Less:	capital allowances		(432)	(292)	
Trading income			£126,588	£112,595	

Notes

1. Aaron was entitled to a salary of £1,000/month from 1 February 2016 until 31 March 2017 (9 x £1,000 = £9,000 in year ended 31 October 2016 and 5 x £1,000 = £5,000 for year ended 31 October 2017).

2. In principle the legal fees relate to a trading matter occurring within the year ended 31 October 2017 so the full £2,000 legal costs will be allowable. For the provision to be allowable (i) there must be an obligation to make a payment by the reporting date as a result of a past event; (ii) a transfer of economic benefit will be required to settle the obligation; and (iii) the amount can be reasonably quantified. In this case the incident occurred in March 2017 and some compensation will be payable. The best estimate of this is £2,500 so the provision of £10,000 appears excessive. Total add-backs therefore amount to £7,500.

3. £850 (£1,450 - £600) for entertaining suppliers is disallowable. Staff entertaining is allowable but only the £300 portion relating to employees. Total add-backs therefore amount to £1,150 (£850 + £300).

4. Motor expense private use adjustments will be required as follows:

   Year ended 31 October 2016 £5,320 ((£2100 + £2,650 + £1,900) x 80%).
   Year ending 31 October 2017 £6,237 (£4,720 ((£900 + 2,800 + 2,200) x 80%) + £1,517 x 100% (Davina).

5. Capital allowances:

Year ended 31 October 2016

	Pool	Aaron's Car	Bill's Car	Chloe's Car	Davina's Car	Private Use	Allowances
TWDV b/f	Nil	4,000	4,000	4,000			
WDA x 18%	--	(720)	(720)	(720)		1,728	£432
TWDV c/f	Nil	3,280	3,280	3,280			

Year ended 31 October 2017

	Pool	Aaron's Car	Bill's Car	Chloe's Car	Davina's Car	Private Use	Allowances
TWDV b/f	Nil	3,280	3,280	3,280			
Disposal		(3,000)					
Addition					4,000		
	Nil	280	3,280	3,280	4,000		
Balancing allowance		(280)				224	56
WDA x 18%			(590)	(590)	(720)	1,664	236
							£292
TWDV c/f	Nil	Nil	2,690	2,690	3,280		

Upon his retirement from the partnership Aaron retained his car. A disposal value of £3,000 (market value at 1 April 2017) therefore needs to be brought into account.

Appendix B

Profit Allocation for the year ended 31/10/2016 and 31/10/2017

Year ended 31/10/2016

	Total	Aaron	Bill	Chloe	Davina
1/11/2015 to 31/1/2016					
126,588 x 3/12	31,647	10,549	10,549	10,549	
1/2/2016 to 31/10/2016					
Salary	9,000	9,000			
Balance (126,588 – 31,647 – 9,000)	85,941	28,647	28,647	28,647	
Total	126,588	48,196	39,196	39,196	

Year ended 31/10/2017

	Total	Aaron	Bill	Chloe	Davina
1/11/2016 to 31/3/2017					
Salary	5,000	5,000			
Balance (112,595 x 5/12 – 5,000)	41,915	13,971	13,972	13,972	
1/4/2017 to 31/10/2017					
Balance (112,595 x 7/12)	65,680		26,272	26,272	13,136
Total	112,595	18,971	40,244	40,244	13,136

APPENDIX C

Overlap Profits for Aaron

Share of Profits

Accounting Period/Year	Profits £	Aaron’s share (1/3) £
P/e 31/10/2012	23,400	7,800
Y/e 31/10/2013	35,700	11,900
Y/e 31/10/2014	58,800	19,600

Assessments

Tax year	Basis period	Assessment £
2011/12	1/1/12 to 5/4/12 7,800 x 3/10	2,340
2012/13	1/1/12 to 31/12/12 7,800 + £1,983 (2/12 x 11,900)	9,783
2013/14	1/11/12 to 31/10/13	11,900

The overlap periods are 1/1/12 to 5/4/12 (£2,340) and 1/11/12 to 31/12/12 (£1,983) giving rise to total overlap profits of £4,323.

Appendix D

Aaron's Income Tax and National Insurance Liabilities

2016/17 Tax Year

Trading income (48,196 + 18,971 – 4,323)		62,844
Less: personal allowance		(11,000)
Taxable income		£51,844
Income tax	32,000 x 20%	6,400
	19,844 x 40%	7,938
		14,338
C4 NIC	43,000 – 8,060 x 9%	3,145
	62,844 – 43,000 x 2%	397
C2 NIC	£2.80 x 52 weeks	146
		£18,026

2017/18 Tax Year (Projected)

Pension income		20,000
Less: personal allowance		(11,000)
Taxable income		£9,000
Income tax	9,000 x 20%	£1,800

Appendix E

Capital Gains arising at end of 2016/17 Tax Year

Aaron`s Chargeable Gains Arising on 31/3/2017

		Goodwill £	Property £
Proceeds	(45,000/3)	15,000	
	(240,000/3)		80,000
Less: cost		nil	
	(90,000/3)		(30,000)
Chargeable gains		£15,000	£50,000

Bill and Chloe's Chargeable Gains Arising on 1/4/2017

		Goodwill £	Property £
Proceeds	(45,000 x 10%)	4,500	
	(240,000 x 10%)		24,000
Less: cost	(15,000 x 10%)	(1,500)	
	(140,000 x 10%)		(14,000)
Chargeable gains		£3,000	£10,000

Bill and Chloe`s CGT Liability Upon Proposed Disposal of 12 Front Street in October 2017

Each will have a liability calculated as follows:

Taxable income (per Appendix B)		40,244
Less: personal allowance		(11,000)
Taxable income		29,244
Basic rate band		(32,000)
Remaining		2,756
Chargeable gain		48,000
Annual exempt amount		(11,100)
		36,900
CGT thereon:	2,756 x 10%	276
	34,144 x 20%	6,829
		£7,105

MARKING GUIDE

Closing Position for A Amies/Profit allocations		
Tax adjusted profits	Partners salaries	1
	Legal fees	2
	Entertaining	½
	Private use adjustments	1
Capital allowances	Year ended 31/10/2016	1 ½
	Year ended 31/10/2017	2
Profit allocation	Year ended 31/10/2016	1 ½
	Year ended 31/10/2017	1 ½
Basis periods	Application to partnerships	½
	Basic rule	½
	Closing years rule	1
	Overlap profits	2
Aaron tax liabilities	2016/17 computation	2
	2017/18 projection	½
	Due dates/payment on account	3 ½
Partnership changes/purchase of 12 Front Street		
Partnership rules		4
Aaron's position	Disposal of goodwill	1
	Disposal of property	1
	Entrepreneur`s relief	1
	CGT liability	1
	Capital/current accounts withdrawals	1
Bill, Chloe & Davina's position		4
Disposal of 12 Front Street		4
Stamp Duty Land Tax		3
Purchase of 34 Sea View		
Rollover relief	Conditions	2
	Mechanics	1
	Immediately brought into use/ESC D24	3
	Partial reinvestment	1
	Further capital expenditure	4
	Interaction with capital allowances	1
	Claims/Time limit	3
Capital allowances	Deduction	½
	General	1 ½
	Qualifying assets	6
Loan interest		1
Losses	Identification	1
Use of losses	General	1
	Bill/Chloe	2
	Davina	2
	Break in business	1
Other Matters		
VAT		2
Partner's liabilities		4
Total technical		78
Presentation and higher skills		22
Total		100