The Chartered Institute of Taxation

Awareness

Module E: Taxation of Unincorporated Businesses

November 2022

Suggested solutions

49)

Class 2 NIC	£3.05 x 52 weeks x 3/12		£40	1 + 1
Class 4 NIC	Period ended 30 June 2021	10,900		1
	Overlap profits	(540)		1
	Taxable trade profit 2021/22	£10,360		
	(10,360 – 9,568) x 9%		£71	1

50)

		£	
Sales income received during the year	£58,400 x 90%	52,560	1
Insurance paid during the year		(980)	1
Machinery purchased during the year		(10,600)	1
Loan interest	Max	(500)	1
Mileage claim	1,440 x 45p	(648)	1
Taxable trade profit for the year		£39,832	

51)

Zoe has a 2021/22 trading loss which can be:

- Claimed as a current and/or prior year offset, to relieve the loss against total income for either or both years 1
- Carried forward and offset against the next available trade profits, as they arise in the future 1
- Claimed via an early years relief claim to be offset against total income of the last three years on a FIFO basis, starting with the 2018/19 tax year 1 + 1*

Advantages of making claims to relieve the loss now rather than carrying the loss forward would include the cashflow timing of gaining tax relief sooner and possibly increasing the rate of saving, since Zoe had substantial income in previous years but expects only a small profit next year. *Any one reasonable advantage* 1

1st mark for 3 years against total income, 2nd mark for FIFO basis

52)

		Phil	Ray	Susan	
		£	£	£	
Profit to 28/2/22					
11/12 x £114,000	104,500				
11/12 x salary	(16,500)	3,850	5,500	7,150	1
	88,000	35,200	35,200	17,600	1
Profit to 31/03/22	9,500	4,750	-	4,750	1
		43,800	40,700	29,500	
Basis of assessment		CYB	Closing years	CYB	
Ye 31/3/22		£43,800		£29,500	1
Final profits			40,700		
Overlap profits			(1,500)		
			£39,200		1

53)

31 July 2022

This will be a payment on account for 2021/22		1
The payments on account are based on the Income Tax and Class 4 National Insurance for the previous year (2020/21), and will be 50% of that total, 50% x (£7,250 + £1,230)	£4,240	1

31 January 2023

This will be the balancing payment for 2021/22, to cover all taxes due for the year		1
Total Income Tax and Class 4 National Insurance	10,040	
Class 2 National Insurance 2021/22	159	
However, the payments on account made will be deducted, (£4,240 x 2)	(8,480)	1*
As the capital disposal was business premises, no capital gains tax would have been paid in year, so the full amount will be due on 31 January 2023 Capital gains tax 2021/22	4,180	1
Total payable	£5,899	

**Follow own figure but must be x 2*

54)

		Main pool	Special rate pool	Allowances	
Tax wdv b/f		21,400	11,300		
Electric car	21,000				
100% FYA	(21,000)			21,000	1
Machinery	140,000				
AIA**	(140,000)			140,000	1
Disposal	*proceeds*		(4,000)		1
		21,400	7,300		
WDA 18%/6%		(3,852)	(438)	4,290	1+1
Tax wdv c/f		17,548	6,862		
Total allowances				£165,290	

*** Maximum AIA for the year is 9/12 x £1 million + 3/12 x £200,000 so the full amount is relieved as it was purchased before 1 January 2022.*

55)

Nadya is now training new apprentices working for the business which suggests integration into the organisation.

Nadya is working two days per week regularly which suggests a mutuality of obligations and also integration in the business

She reports to managers on her work which suggests that Grow4 exercises control over her work.

Where a person provides major equipment, that is a strong pointer towards self-employment. Where only minor tools are provided, as is the case with Nadya, it is a weak indicator of self-employment.

Nadya has her own self-employed gardening business. However Grow4 is a completely different type of customer. Overall therefore, she is likely to be regarded as an employee of Grow4.

1 mark for each fully made point.

56)

		£	
Goodwill gain	£38,000 - £0	38,000	
Premises gain	£160,000 - £125,000	35,000	
Total gains		73,000	1
Gift relief		(58,000)	1
Chargeable gain	£140,000 - £125,000	15,000	1
AEA	£12,300 - £4,000	(8,300)	1
Taxable gain		£6,700	
CGT x 10%	BADR available	£670	1

57)

Proceeds	280,000	
Cost	(110,000)	
	170,000	1
Rollover relief	(120,000)	
Chargeable gain (Proceeds not invested)	£50,000	1

As the replacement asset is a depreciating asset, the deferred gain of £120,000 will become chargeable on the earlier of:

The 10 year anniversary of the purchase of the leasehold factory i.e 1.3.32	1*
The date the leasehold factory ceases to be used in the trade	1*
The date the leasehold factory is sold	1*

**Lose one of these marks if don't state "earlier of"*

58)

Medical insurance	The cost of providing the insurance to an employee is allowable, so no adjustment will be needed.	1
	However, the cost of the insurance for Sue is personal and so should be added back to the profit	
Lease car	As the car is a high CO_2 emission car, an automatic 15% addback is needed.	1
	No adjustment is needed for the private use of the car	1
Wages	Provisions for wages are allowable deductions provided they are paid within 9 months of the year end so this will require no adjustment	1
Loss on sale	The loss on sale of equipment is purely an accounting entry, like depreciation, and should be added back.	1
	The proceeds should be deducted from the pool in the capital allowances computations.	1
		Max 5

59)

The cash introduced by Archie on 1 October 2021 and credited to his account will have no capital gains consequences. 1

On introducing the property to the partnership on 1 November 2021, Billy is deemed to have made a part disposal as he will retain a 25% entitlement to the asset. 1

The gain will be calculated as follows:

Market value at 1 November 2021 £400,000 x 75%	300,000	1
Less Original cost		
£180,000 x 300,000 / 400,000	(135,000)	1
	£165,000	

The other partners will have a base cost for their share in the property of £100,000 (£400,000 x 25%) whereas Billy will have a base cost of £45,000, being the remainder of his original cost. 1

60)

Ceased to trade 31/7/21 2021/22

		£	£	
Post 5 April 2021	4/9 x £(18,000)		(8,000)	1
	Overlap profits		(1,800)	1
Pre 5 April 2021	5/9 x £(18,000)	(10,000)		
	3/12 x £22,000	5,500		1
		(4,500)	(4,500)	
Terminal loss			£14,300	

Terminal losses can be <u>carried back three years on a LIFO basis</u> and set off against <u>trade income only</u> 1+1