The Chartered Institute of Taxation

Awareness

Module E Taxation of Unincorporated Businesses

November 2021

Suggested solutions

49)

2019/20	1/9/19 – 5/4/20		
	7/10 x 14,000	£9,800	2
2020/21	1/9/19 – 31/8/20		1
	Period ended 30 June 2020	14,000	~~2~~
	2/12 x 18,000	3,000	
		£17,000	1
Overlap profits carried forward at 5/4/21		£9,800	1*

**Candidates may recognise the additional £3,000 overlap which will be created once 2021/22 is assessed*

50)

2020/21	Profits for year	34,400	
	Loss brought forward from 2019/20	(10,800)	1
	Subject to Class 4 NIC	£23,600	
	23,600 – 9,500 x 9%	£ 1,269	1

Payable along with income tax under self assessment. 1

As Harry had no income in 2019/20 he will not have paid any payments on account in January nor July 2020 so the Class 4 NIC will be payable in full 31 January 2022 2

51)

Stacey can claim for pre-trading expenditure incurred in the seven-year period before trade began provided the expenses are items which would be allowable expenditure incurred in the normal course of the business. 1

In relation to her mileage, Stacey could make a claim using the authorised rates at 45p per mile for each of the 8,000 miles travelled. 1

The travel costs to visit overseas suppliers would be allowable based on the £1,200 spent. 1

The purchase of the computer will be treated as plant and machinery for capital allowance purposes. Depending on what other plant and machinery items are purchased, this is likely to fall within the available Annual Investment Allowance limit and the cost therefore allowable in full. 1

The costs will all be treated as arising on the first day of trading and therefore deducted from profits for the first accounting period. 1

52)

		Kevin	Lucy	Natalie	
1/7/2020 – 31/3/2021					
9/12 x £100,000	75,000				
9/12 x salaries	(16,500)	7,500	9,000		1
Balance 50:50	58,500	29,250	29,250		1
1/4/2021 – 30/6/2021					
3/12 x £100,000	25,000				
3/12 x interest					1
£100,000 x 3% x 3/12	(750)			750	
3/12 x salaries	(9,250)	2,500	3,000	3,750	1
Balance 1/3 each	15,000	5,000	5,000	5,000	1
		£44,250	£46,250	£9,500	

53)

	Main pool	**Private use car 1**	**Private use car 2**	**Allowances**	
Tax wdv b/f	43,220	10,410			
Disposal proceeds		(8,700)			
Purchase cost			18,350		
		1,710			
Balancing allowance		(1,710) x 80%		1,368	2
WDA 18%	(7,780)			7,780	1
WDA 6%			(1,101) x 80%	881	2
Tax wdv c/f	£35,440		£17,249		
Total allowances				£10,029	

54)

1) 2020/21 Year of cessation		
Year ended 30 September 2020	(12,100)	
Period ended 28 February 2021	(16,310)	1
Overlap profits	(4,000)	1
	£(32,410)	
2) 6/4/2020		
Period ended 28 February 2021	(16,310)	
6/4/2020 – 30/9/2020		1
6/12 x year ended 30 September 2020	(6,050)	
Overlap profits	(4,000)	1
Pre 6/4/2020		
1/12 x year ended 30 September 2020	(1,008)	1
Terminal loss	£(27,368)	

55)

1) No gift relief claimed so base cost is market value when transferred from Zac 1

Proceeds	310,000		
Base cost	(185,000)		1
Chargeable gain for Archie January 2022	£125,000		

2) Gift relief claimed	Market value			185,000	
	Held over gain:				
		Zac gain (185,000 – 20,000)	165,000		
		Chargeable on Zac (50,000 – 20,000)	(30,000)		1
		Deferred gain via gift relief		135,000	1
		Base cost for Archie		£ 50,000	

Proceeds	310,000	
Base cost	(50,000)	1
Chargeable gain for Archie January 2022	£260,000	

56)

For a change of accounting date to be valid, the following conditions must be met:

- the accounting period of change does not exceed 18 months; and 1
- the taxpayer informs HMRC of the change by 31 January following the tax year of change; and 1
- there has been no other change in the previous 5 tax years or the current change of date is for a bona fide commercial reason. 1

For George the problem is that the proposed long period of accounts to 31 March 2021 will exceed 18 months. George should instead prepare accounts for the 12 months to 31 July 2020 and a short period to 31 March 2021 and notify HM Revenue and Customs of the change by 31 January 2022*
**Any sensible suggestion to solve the period being too long will be accepted*

2

57) 1 mark each

		£
Profit per the accounts		31,140
Add: Disallowable expenses		
Promotional event	*Client entertaining*	4,420
Employee loan written off	*Allowable for employer*	-
Staff training	*Always allowable*	-
Accountancy fees	*Relating to tax enquiry*	1,200
Website costs	*Initial set up capital*	2,810
Adjusted profit for the year		£39,570

58)

If Petra makes a current year claim, she must use £14,000 of the loss to cover the net income for the year in full, which wastes her personal allowance. 1

If instead she makes a carry back claim to set the loss against the 2019/20 net income, she can use all £18,000 of her loss and still leave enough income to make full use of the personal allowance for that year. 1

In 2020/21 the small amount of taxable income is taxed at basic rate only whereas before taking account of loss relief, the 2019/20 income of £57,000 will in part be being taxed at higher rates. Relieving the loss against this income therefore results in a higher rate of relief for the loss. 1

Finally, a claim against current year income only reduces the tax payable for the current year whereas a carry back claim will result in a cash repayment which gives a cashflow advantage. 1

Loss relief claims under s.64 must be submitted to HMRC by the first anniversary of 31 January following the end of the tax year of the loss – this is a 2020/21 loss so the claim must be made by 31 January 2023. 1

59)

For rollover relief to apply, the assets sold and purchased must each be qualifying assets, which here they are as they are all properties being used within her trade. 1

The purchase needs to take place within a qualifying period, being up to 12 months before or 36 months after the date of sale. 1

Both “The Wharf” and “The Quays” are expected to be purchased within the 36 months following 18 February 2020 so both would meet this condition. 1

For full rollover relief to be available, the replacement asset must cost at least as much as the net proceeds on sale of the original asset. 1

“The Wharf” will cost just £250,000 leaving £30,000 not reinvested. This £30,000 would therefore remain chargeable in 2019/20 whereas “The Quays” will cost more than the £280,000 proceeds from the original property, allowing the full gain to be deferred. 1

60)

The main structural works on the building will qualify for the structures and buildings allowance (SBA) at the rate of 3% per annum. 1

The heating and air conditioning systems are <u>integral features</u> qualifying for capital allowances as part of the <u>special rate pool</u>. 1

Depending upon other qualifying purchases made the cost can be claimed as part of the annual investment allowance for the year or as a writing down allowance at a rate of 6% per annum. 1

The sewerage and drainage systems fall under List A in s21 CAA2001 and therefore form part of the building, meaning that this will not qualify as plant and machinery for capital allowance purposes. However, this will be added to the structural building works cost which will qualify for SBA at the 3% per annum rate. 1

The land and planning permission costs do not qualify for the SBA nor capital allowances and so no immediate relief will be available for these costs. Instead, these will be carried forward as part of the base cost for the property for the calculation of any capital gain or loss on the eventual sale. 1