



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2020

Suggested solutions

Awareness Module E Taxation of Unincorporated Businesses

Answer 49

	£	
Taxable trading profit before capital allowances	90,000	
Less capital allowances (working)	<u>(1,281)</u>	
Taxable trading profit after capital allowances	<u>£88,719</u>	1
Alice's share: 50% x £88,719	<u>£44,360</u>	1

Working - capital allowances for the year ended 5 April 2020

	Ted's car £	Alice's car £	Allowances £	
Additions	6,500	8,000		
WDA 6%	(390)		273	1
WDA 18%		(1,440)	1,008	1+1*
Tax written down value carried forward	<u>£6,110</u>	<u>£6,560</u>	<u>£1,281</u>	

*Private use restriction for both cars.

Answer 50

1)

	£	
Cash receipts (<u>including</u> the proceeds from the sale of the van)	70,000	1
Cash payments (<u>excluding</u> the cost of the car) £(96,000 – 18,000)	(78,000)	1
Fixed rate mileage allowance for business mileage only 24,000 x 40% = 9,600 miles at 45p per mile	(4,320)	1
Use of home for business 12 months at £10 per month	<u>(120)</u>	1
Tax adjusted trading loss	<u>£(12,440)</u>	

2) Under the cash basis, trading losses can only be relieved against future trading profits of the same trade. 1

Answer 51

16-month period ended 30 April 2020	General pool £	Special rate pool £	Allowances £	
Tax written down value brought forward	9,200			
Additions – no AIA		14,000		1
Disposals	<u>(8,000)</u>			1
	1,200	14,000		
Small pools WDA (see W)	(1,200)		1,200	1
WDA 8.5% (working)		(1,190)	1,190	
Tax written down value carried forward	<u>£Nil</u>	<u>£12,810</u>	<u>£2,390</u>	

Working: Blended rate = 8% x 3/12 + 6% x 13/12 = 8.5% 1+1

(W) Small pools WDA as the balance on the pool is no more than £1,000 x 16/12 = £1,333.

Answer 52

		£	
2017/18	1/5/17 – 5/4/18 11/16 x £24,000	<u>16,500</u>	1
2018/19	12 months to 31/8/18 12/16 x £24,000	<u>18,000</u>	1
2019/20	Year of cessation 1/9/18 – 29/2/20 1/9/18 – 31/8/19 1/9/19 – 29/2/20 Less overlap profits (7/16 x £24,000)	14,000 4,000 <u>(10,500)</u> <u>7,500</u>	1 1 1

Answer 53

- 1) Termination payments on cessation of trade are allowable, but only up to four times the statutory amount, therefore allow $4 \times £5,000 = £20,000$ per staff member, but add back the excess of $£8,000 \times 3 = £24,000$ to accounting profit to arrive at taxable trading profits. 1
- 2) Bonuses paid to staff are allowable expenses, but the 'bonus' paid to Nuala is disallowed as an appropriation of profit, and therefore £1,100 must be added back. 1+1
- 3) Profits on disposals of capital assets are disallowed and must therefore be deducted. 1

Answer 54

Liability to Class 2 National Insurance Contributions ceases immediately on reaching pensionable age, therefore for 2019/20, Aedan's liability is £104 being $8/12 \times$ annual charge ($8/12 \times (£3 \times 52 \text{ weeks})$). 1

For Class 4 National Insurance Contribution purposes, trading losses are relieved against trading profits only, therefore the claim to set against total income of 2018/19 is irrelevant for National Insurance. The £14,000 loss from 2018/19 is brought forward and reduces the trading profit of 2019/20 to £11,000. 1

Liability to Class 4 National Insurance Contributions ceases from the start of the tax year after the year in which pensionable age is reached, therefore Aedan continues to be liable for 2019/20 and his liability for 2019/20 is $£(11,000 - 8,632) \times 9\% = £213$. 1

Answer 55

- 1) A paper return would have needed to be submitted by the later of 31 October 2019 or three months after the issue of the return (25 November 2019). 1
The first amount due under self-assessment would have been payable by 31 January 2020. 1
- 2) Penalty for late submission of the return = £100. 1
Penalty for late payment of Income Tax = 5% of the unpaid tax. 1

Answer 56

	Total £	Katie £	Hannah £	John £	
Year ended 31 December 2019	(50,000)				
Salaries	<u>(46,000)</u>	30,000	9,000	7,000	
	(96,000)				1
Balance shared (20%/30%/50%)	<u>96,000</u>	(19,200)	(28,800)	(48,000)	1
	Nil	10,800	(19,800)	(41,000)	
Reallocate Katie's notional profit					1
To Hannah:					
19,800/(19,800 + 41,000) x £10,800		(3,517)	3,517		1
To John:					
41,000/(41,000 + 19,800) x £10,800		(7,283)		7,283	1
Totals	<u>£(50,000)</u>	Nil	£(16,283)	£(33,717)	

Answer 57

1)

Proceeds	£	
	4,000	
Cost: 4,000/(4,000 + 20,000) x £12,750	<u>(2,125)</u>	1+1
Chargeable gain	<u>£1,875</u>	

2)

A small part disposal election is available to Frank as:

- The proceeds of all land disposals during the year is no more than £20,000 and 1
- The proceeds of the part disposal is no more than 20% of the value of the entire land at the date of disposal 1

The effect of the election is that Frank will have no chargeable gain in 2019/20. 1
 Instead, the proceeds of the small part disposal will be deducted from the cost of the land for a future disposal of the remainder.

Answer 58

Maximum s.261B claim is the lower of:

- The trading loss remaining after a s.64 claim against income £45,000 - £19,500	£	£	
		<u>£25,500</u>	1
- Net current year gains less capital losses brought forward			
Net current year gains	41,000		
Capital losses brought forward (deemed offset)	<u>(22,500)</u>		
		18,500	1
Hence maximum offset against gains		<u>£18,500</u>	

Net current year gains	41,000	
Maximum s.261B claim	<u>(18,500)</u>	1
	22,500	
Less annual exemption	<u>(12,000)</u>	1
	10,500	
Less brought forward loss	<u>(10,500)</u>	1
Taxable gains	<u>£nil</u>	

Answer 59

	Total £	Business use 2/3 £	Non-business use 1/3 £	
Proceeds	330,000	220,000	110,000	
Gain	90,000	60,000	30,000	1
Less rollover relief (balancing figure)	(40,000)	(40,000)	-	1
Gain chargeable = proceeds not reinvested £220,000 – £200,000	£50,000	£20,000*	£30,000	1+1

*comparing the business use proportion only.

The base cost of the replacement warehouse	£		
Cost	200,000		
Less gain rolled over	(40,000)		
	<u>£160,000</u>		1

Answer 60

<u>Instalments received from Emily</u>	<u>Instalments of CGT</u>	<u>Amount due</u> £	
25 March 2020	50% x £60,000 (due <u>31 January 2021</u>)	30,000	1+1+1
25 March 2021	50% x £60,000 (due <u>25 March 2021*</u>)	30,000	1*
25 March 2022	<u>balance of CGT due</u> (due 25 March 2022*)	5,000	1

* For the second instalment and the balance of CGT being due on 25 March 2021 and 25 March 2022 respectively.