

# The Chartered Institute of Taxation

## AWARENESS

**November 2023**

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correct question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

## Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Meldon started trading on 1 July 2022, making zero-rated supplies of £2,000 per month and exempt supplies of £1,000 per month. She also made standard rated sales of £8,000 each month until 31 December 2022, increasing to £10,000 each month from 1 January 2023.

Meldon only realised she had breached the turnover threshold for VAT registration when she reviewed her annual sales on 1 July 2023, and she notified HMRC on that day.

- 1) Explain, with supporting calculations, when Meldon breached the VAT threshold, and the date she should have been registered from.
- 2) Calculate the output tax that should be charged when the registration is backdated.

2. Miguel is VAT registered. He has provided the following VAT exclusive sales information in relation to the quarter ended 30 September 2023:

	<u>Standard-rated sales</u>	<u>Zero-rated sales</u>
	£	£
July 2023	10,000	2,000
August 2023	11,000	0
September 2023	12,000	2,500

From 1 September 2023, Miguel offered a 10% discount to all customers who paid within seven days of the sales invoice. 50% of customers paid within seven days to benefit from the discount. Miguel does not want to issue credit notes.

- 1) State what information needs to be included on the invoice to ensure that Miguel does not have to issue credit notes.
- 2) Calculate the output VAT payable by Miguel for the quarter ended 30 September 2023, showing your treatment of each item, assuming that Miguel does not have to issue credit notes.

3. Camilla is a VAT registered sole trader. She completed services for a customer on 20 July 2023 and invoiced the customer on 31 July 2023. The customer paid on 3 August 2023.

On 1 August 2023, Camilla ordered some new machinery, and on 12 August 2023, paid a deposit of £20,000. The machine was despatched to Camilla, on 1 September 2023. On 11 September 2023, an invoice was issued to Camilla for the balance due of £80,000, and this was paid on 21 September 2023.

**Explain the tax points for the supply of the services and the purchase of the machinery.**

4. Aisha started trading on 1 October 2022 and registered for VAT on 1 July 2023.

On 1 August 2022, Aisha purchased a laptop which she intended for use in the business, for £1,000 exclusive of VAT.

From 1 September 2022, Aisha has paid for monthly advertising services, costing £100 per month, exclusive of VAT.

On 31 July 2023, Aisha purchased a car for £18,000, exclusive of VAT. The car is mainly for business use, however she will use the car for private use 30% of the time. During the quarter ended 30 September 2023, Aisha spent £2,000 inclusive of VAT on repairs to the car.

**Calculate, with explanations where necessary, how much input VAT Aisha can reclaim in the VAT return for the quarter ended 30 September 2023.**

5. Aydin has been VAT registered since 2012. The value of his taxable supplies for the year ended 31 December 2022 was £1,100,000 and for the year ended 31 December 2023 is expected to be £1,250,000.

Aydin normally submits his VAT returns and makes the VAT payments on time. However, he was late submitting his return for the quarter ended 30 June 2023. The return was submitted on 31 August 2023 and the payment was made on the same day.

Aydin has the following debts outstanding which he has written off in the accounts, and which he has paid the output VAT on:

<u>Customer</u>	<u>Invoice due date</u>	<u>Net Amount</u>
		£
Laneek Ltd	31 January 2023	1,000
Kaliib Ltd	30 April 2023	800

Aydin has been considering joining the cash accounting scheme, the flat rate scheme or the annual accounting scheme.

- 1) **Explain whether Aydin will be able to join the cash accounting scheme, and if so whether he will also be able to join the flat rate scheme and/or the annual accounting scheme.**
- 2) **Explain how much bad debt relief Aydin can claim in the quarter ended 30 September 2023, while he is not using any special schemes.**

6. Koa has been VAT registered for many years and supplies goods to business customers. He has recently started making smaller value sales and has heard that he might be able to issue simplified invoices for those sales.

- 1) **Explain when Koa can issue a simplified VAT invoice, and state three things that would normally be included on a VAT invoice which are NOT required on a simplified invoice.**
- 2) **State how long Koa must keep all of his VAT accounting records and invoices.**

7. Kailani is a VAT registered trader making both taxable and exempt supplies.

For the quarter ended 30 September 2023, Kailani's VAT exclusive turnover was as follows:

	£
Standard-rated supplies	27,000
Exempt supplies	<u>8,000</u>
	<u>£35,000</u>

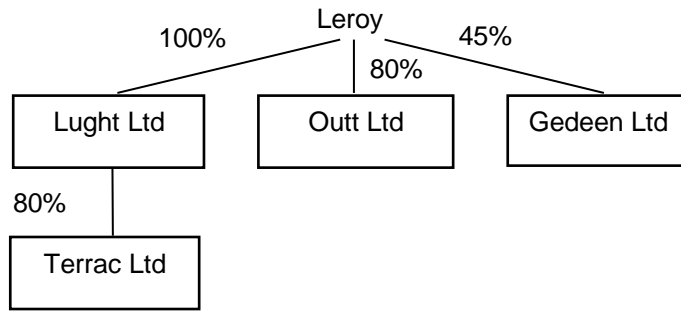
Standard-rated supplies include £2,000 (excluding VAT) received in respect of the disposal of equipment used in Kailani's trade.

Her input tax was as follows:

	£
Directly attributable to standard-rated supplies	6,700
Directly attributable to exempt supplies	750
Unattributable	<u>400</u>
	<u>£7,850</u>

**Determine, with reference ONLY to the simplified partial exemption tests 1 and 2, Kailani's recoverable input VAT for the quarter ended 30 September 2023.**

8. Leroy operates a sole trader business and also has the following shareholdings:



All companies operate exclusively in the UK, as does Leroy's sole trader business.

Lught Ltd, Outt Ltd and Gedeem Ltd all make wholly standard-rated supplies. Terrac Ltd makes wholly zero-rated supplies.

**Explain:**

- 1) Which companies are eligible to form a group for VAT purposes, and whether Leroy will be part of the group.
- 2) Three advantages of group VAT registration.

9. Mina owns the freehold of two separate buildings.

Building 1 is let to individuals as residential accommodation.

Building 2 is let to several businesses, some of which are VAT registered.

Both buildings require repairs which will cost around £50,000 plus VAT each.

**Briefly explain the implications for Mina and her tenants if she decides to opt to tax the buildings.**

10. Duncan is a VAT registered trader. During the quarter ended 30 September 2023 he had the following VAT exclusive sales:

	£
Sales to UK customers	90,000
Sales to customers overseas	30,000

Purchases in the UK were £25,000, excluding VAT.

All of the goods that Duncan sold and purchased were standard-rated for VAT purposes in the UK.

Duncan uses a car for business purposes. During the quarter ended 30 September 2023, Duncan bought fuel for the car totalling £600, including VAT.

The VAT fuel scale charge for the quarter is £507.

**Calculate the VAT due for the quarter ended 30 September 2023.**

11. In June 2023, Rosie acquired the following shares:
- 1) 2,000 newly issued shares in Valliei Ltd for £2,000.
  - 2) 200 shares in Pachecoo Ltd from a third party for £750.
  - 3) 80 shares in Murcait Ltd from a third party for £6,600.

**Calculate, with explanations, the amount of Stamp Duty due in respect of each of the above acquisitions, and state when any Stamp Duty should be paid.**

12. Goolf Ltd has been a wholly own subsidiary of Cluub Ltd since 2012.

Cluub Ltd acquired an office block from Goolf Ltd on 1 December 2021 for £850,000.

Boogie Ltd, an unconnected company, plans to acquire the office block from Cluub Ltd on 31 December 2023, for £1.3 million.

**Briefly explain, with supporting calculations, the Stamp Duty Land Tax [Scots law – Land and Buildings Transaction Tax] payable on the two acquisitions of the office block and state the due date for the payment.**

## Module B: Inheritance Tax, Trusts & Estates

If you have entered for Module B you must answer Questions 13 – 24 and type your answers between the question dividers 13 – 24.

13. Rosa made the following disposals during 2022/23:

10 April 2022	Gave an antique clock worth £15,000 to her civil partner.
22 May 2022	Sold a racehorse to her cousin for £55,000 when its market value was £75,000.
29 November 2022	Gave 32,000 units in a unit trust to her brother when they were quoted at 315p – 321p.
22 March 2023	Gave 10,000 shares (a 10% holding) in an unquoted investment company to her sister (see below).

The shares were out of Rosa's holding of 30,000 shares (a 30% holding). The values per share at the date of the gift were as follows:

30% holding	£25
20% holding	£18
10% holding	£10

**Calculate the Inheritance Tax value of each of Rosa's transfers of value during 2022/23.**

14. Harriet died on 20 October 2023. Her only lifetime gift was made on 1 November 2019 when she gave an antique brooch to her granddaughter, Flora. The brooch was valued at £500,000 in November 2019 but was only worth £440,000 on 20 October 2023.

**Calculate the Inheritance Tax payable by Flora on the lifetime gift as a result of Harriet's death assuming any beneficial elections are made.**

15. Guillermo, who had made no lifetime gifts, died on 30 September 2023. At the date of his death he was domiciled in Mexico but had been resident in the UK for five years. He left the following assets and liabilities:

	£
A house in the UK	750,000
An apartment in Mexico (always let out to tenants)	425,000
Investments and personal chattels in the UK	620,000
UK Income Tax	(5,750)
UK gambling debts	(56,000)

Guillermo's Will stated that the house in the UK was to be left to his wife, Doria, and the rest of the estate to his daughter, Elisabetta.

Doria and Elisabetta are both domiciled in Mexico.

**Calculate the Inheritance Tax payable on Guillermo's death estate.**

16. Vivienne made the following gifts to her daughter Louisa during 2022/23:

20 July 2022	£250,000 in cash on the occasion of Louisa's wedding.
14 February 2023	A painting worth £8,000 on the occasion of Louisa's birthday.

Vivienne had inherited the painting in 2002 on the death of her mother Edith. It had cost Edith £3,500 and had a value of £4,500 on her death.

Vivienne had not made any previous lifetime gifts, with the exception of £3,000 out of capital to her nephew on 10 April every year on his birthday.

- 1) Explain the Inheritance Tax and Capital Gains Tax implications of the gifts to Louisa.**
- 2) Calculate the chargeable gain arising on the gift of the painting to Louisa.**

17. Mary is age 87 and is currently reviewing her Will. She wishes to leave an amount to charity which is enough to ensure that the reduced rate of Inheritance Tax will apply to her death estate. Her assets less liabilities total £915,000, and these values are not expected to change in the near future. This includes her home which is valued at £150,000.

Mary's only lifetime gift was a gross chargeable transfer of £250,000 made on 20 February 2020.

Mary's Will states that apart from the charitable legacy, her entire estate is to be left to her son, Michael.

**Assuming that Mary dies during 2022/23, calculate:**

- 1) **The minimum amount that Mary must leave to charity in order for the reduced rate of Inheritance Tax to apply to her death estate; and**
- 2) **The Inheritance Tax payable on her death estate assuming that she leaves the minimum amount to charity.**

18. On 18 May 2022, Eileen transferred 20,000 shares in Wakoo plc into a discretionary trust when they were valued at £21.80 – £22.00 per share with marked bargains of £21.30, £21.55 and £21.90 per share.

Eileen agreed to pay any Inheritance Tax arising on the transfer. Her only previous lifetime gift was a gross chargeable transfer of £500,000 made in September 2019.

**Calculate the Inheritance Tax payable by Eileen and state the due date for payment.**

19. Derrick is aged 72 and in poor health. He is not expected to live more than two years. He owns an unincorporated trading business which he set up in 1984. He is considering gifting the business to his son, Peter. Derrick has not made any previous lifetime gifts.

Peter is unsure as to whether he will keep the business or sell it soon after receiving it.

**Explain the Inheritance Tax implications of:**

- 1) **Derrick gifting the business to Peter.**
- 2) **Peter selling the business soon after receiving it.**

20. Domenica died on 17 November 2021. Her death estate, which she left to her daughter, included the following assets:

- 1) Shares in Salty plc, valued at £80,000.
- 2) An investment property, valued at £230,000.
- 3) One of a set of two matching sculptures, valued at £125,000 (see below).

The other sculpture was owned by Domenica's husband. The value of a single sculpture was £100,000 and the value of the set was £250,000.

The Executors paid the Inheritance Tax on 15 November 2022. On 1 February 2023 the Executors sold all the assets to unconnected third parties. In each case, the gross sale proceeds were 25% less than their probate value.

**Explain:**

- 1) **The post mortem reliefs that may or may not be available on the sale of the assets; and**
- 2) **Where available, the effect of such claims on Domenica's death estate and the Inheritance Tax already paid.**

**Calculations are NOT required.**

21. Raabiah died on 5 November 2018. Included in her death estate was a villa in Italy valued at £220,000, which she left to her sister Zarah. UK Inheritance Tax of £25,000 was paid in respect of the villa.

Zarah died on 15 January 2023. Included in her death estate was the villa inherited from Raabiah which was valued at £235,000. Additional overseas administration costs of £12,000 were incurred in relation to the villa.

**For Zarah's death estate:**

- 1) Explain the maximum relief available for the additional overseas administration costs in relation to the villa.
- 2) Calculate the quick succession relief available.

22. In 2019, Tomoko bought 60,000 ordinary shares in Exertie plc, a quoted trading company. Exertie plc has 100,000 ordinary shares in issue.

On 25 December 2022, she gifted the shares to her son Haruto when they were valued at £2.4 million.

The market value of the assets held by Exertie Ltd on 25 December 2022 were as follows:

	£
Office building used in trade	3,400,000
Villa in Spain used exclusively by the Board members	385,000
Other assets less liabilities	<u>65,000</u>
	<u>£3,850,000</u>

**Explain how much, if any, Business Property Relief is potentially available on Tomoko's gift of the shares to Haruto.**

23. The Whillo Discretionary Trust had the following income during 2022/23:

	£
Property income (net of allowable expenses)	29,000
Interest	17,000

Trustees' administration expenses (met from income) for the year amounted to £3,200.

The balance brought forward on the tax pool at 6 April 2022 was £1,675. A net income payment of £16,500 was made to a beneficiary on 14 March 2023.

No other trusts have been set up by the same settlor.

**Calculate the value of the tax pool carried forward at 5 April 2023.**

24. Edna transferred the following assets into the Wispar Discretionary Trust in October 2015 and claimed gift relief where relevant:

	<u>Cost</u>	<u>Value in</u> <u>October 2015</u>	<u>Value in</u> <u>March 2023</u>
	£	£	£
Shares in a quoted investment company	98,000	107,000	135,000
House	224,000	475,000	520,000

The house was Edna's only home and she had lived in it throughout her period of ownership.

In March 2023, the trustees sold both assets for their market values at that date.

**Calculate the Capital Gains Tax payable by the trustees for 2022/23.**



## Module C: Corporation Tax

If you have entered for Module C you must answer Questions 25 – 36 and type your answers between the question dividers 25 – 36.

25. Woogg Ltd incurred the following capital expenditure during the year ended 31 March 2023:

	£
Main pool expenditure	2,000,000
Special rate pool expenditure	1,800,000

All assets were new, and none were of a type excluded from first year allowances.

At 1 April 2022, the balance on the main pool was £150,000, and on the special rate pool was £70,000.

**Calculate the maximum capital allowances that Woogg Ltd may claim for the year ended 31 March 2023, showing the tax written down value carried forward.**

26. For the year ended 31 December 2022, Reied Ltd deducted the following items in calculating its accounting profit:

- 1) A bonus payable to the Managing Director; which was paid in October 2023.
- 2) A pension contribution for the Finance Director; which was paid in January 2023.
- 3) Leasing costs relating to a director's car (CO<sub>2</sub> emissions 75g/km) of £6,000.
- 4) Gifts bearing the company logo to 100 customers of calendars (costing £4 each) and bottles of wine (costing £10 each).

**For each item, explain whether any adjustment is required in calculating the company's taxable trading profits for the period.**

27. Gogoon Ltd had the following results for the 15-month period ended 30 June 2023.

	Note	£
Tax-adjusted trading profit	1)	450,000
Chargeable gain	2)	200,000

### Notes

- 1) This is before the deduction of available capital allowances. The tax written down value of the main pool at 1 April 2022 was £70,000, and there were no additions or disposals in the 15-month period.
- 2) The chargeable gain arose on the disposal of a factory on 30 April 2023. Gogoon Ltd had capital losses brought forward at 1 April 2022 of £10,000.

**Calculate the Corporation Tax liability in respect of the 15-month period ended 30 June 2023.**

28. Bubbla Ltd prepared accounts for the year ended 31 December 2021. It submitted its company tax return on 31 July 2023, and paid the Corporation Tax liability on the same date.

Bubbla Ltd is a small company. This was the first time that Bubbla Ltd had been late filing a company tax return.

**Explain what filing penalties and interest Bubbla Ltd will be liable to.**

29. Bantana Ltd is a small company for the purposes of research and development tax relief.

For the year ended 31 March 2023, the company had a trading loss of £215,000 and no non-trading income. The company incurred payroll expenses of £58,000 relating to staff who were directly involved in a research and development project.

**Calculate the surrenderable loss, tax credit given, and loss carried forward.**

30. Kludy Ltd prepared accounts for the year ended 31 March 2023, which showed a trading profit of £650,000. This was after the write-off of a £25,000 loan to a participator, Geena. The loan had been made during the year ended 31 March 2022, and tax had been paid under s.455 CTA 2010 on 1 January 2023.

Kludy Ltd also provided another participator, Brody, with a loan of £75,000 on 31 January 2023. £40,000 of the loan will be repaid on 31 December 2023.

Kludy Ltd is not liable to pay tax by instalments.

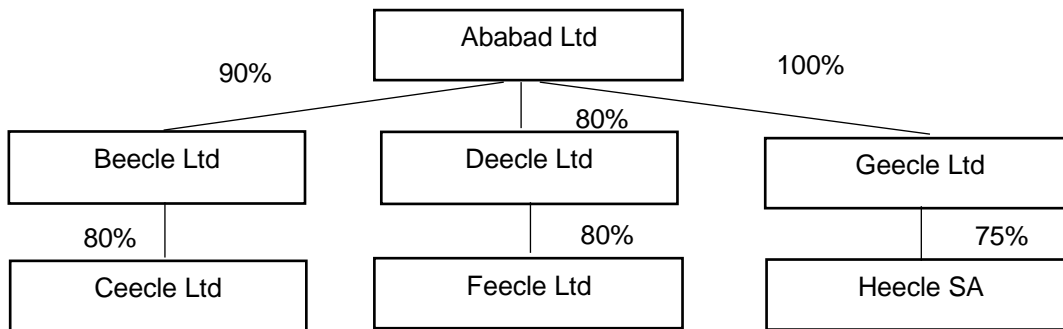
**Calculate the tax adjusted trading profit of Kludy Ltd for the year ended 31 March 2023, and the amount of tax to be paid under s.455 CTA 2010 on 1 January 2024.**

31. Neester Ltd had the following results:

	<u>Year ended</u> <u>31 March</u> <u>2021</u> £	<u>Year ended</u> <u>31 March</u> <u>2022</u> £	<u>Year ended</u> <u>31 March</u> <u>2023</u> £
Trading profit/(loss)	200,000	(150,000)	90,000
UK property business income/(loss)	10,000	10,000	(15,000)
Chargeable gain	40,000	Nil	20,000

**Explain how Neester Ltd can claim relief for losses as early as possible, and state the date by which any claims must be submitted.**

32. The group structure of the Ababad Ltd group has been unchanged for many years, as follows:



All companies in the group prepare accounts to 31 March, and all companies are UK tax resident, except Heecle SA, which is tax resident in France.

For the year ended 31 March 2023, all of the group companies were profitable. Deecle Ltd had the following results:

	£
Trading profits	300,000
UK property business income	40,000
Trading losses b/fwd	(450,000)

- 1) **Explain the group relief group(s) that exist.**
- 2) **Explain how much of Deecle Ltd's brought forward losses can be surrendered as group relief for the year ended 31 March 2023.**

33. Niight Ltd owns 100% of Daiy Ltd.

Niight Ltd transferred a warehouse (originally purchased for £230,000 in January 2010) to Daiy Ltd on 31 December 2019 for £350,000, when the market value of the warehouse was £450,000.

On 28 February 2023 Niight Ltd sold its 100% shareholding in Daiy Ltd for £800,000. The shares had an indexed cost at that date of £300,000. The market value of the warehouse at that date was £500,000. The disposal of the shareholding does not qualify for the substantial shareholdings exemption.

**Calculate the total chargeable gain for Niight Ltd in respect of the disposal of the shares in Daiy Ltd.**

34. Asher provides his services through a personal service company, Asherla Ltd.

For the tax year 2022/23, Asherla Ltd received £120,000 from relevant engagements with Bartla Ltd, a small company for the purposes of the off-payroll working rules. The following amounts were paid by Asherla Ltd:

- 1) Salary for Asher of £20,000;
- 2) Employer's National Insurance;
- 3) Contribution of £10,000 to Asher's pension plan in March 2023; and
- 4) Professional subscriptions of £600.

**Calculate the deemed salary payment from Asherla Ltd to Asher for the tax year 2022/23.**

35. Razermat Ltd is a trading company. In December 2021, it sold a building it had occupied as offices for £380,000, and incurred costs of disposal of £2,000. The indexed cost of the building originally purchased in January 1990 was £175,000.

On 31 January 2022, Razermat Ltd bought a factory for use in its trade, for £340,000. On 31 March 2023, it sold the factory for £400,000.

**Calculate the chargeable gain on the disposal of the factory. You should assume that all beneficial claims and elections are made.**

36. Flaff Ltd is a UK tax resident company, with the following results for the year ended 31 December 2022:

	£	£
		<u>Overseas</u> <u>tax paid</u>
UK trading profit	510,000	
UK property business profits	25,000	
Management expenses	(120,000)	
Overseas permanent establishment trading profit	60,000	20,000
Dividend from overseas subsidiary	15,000	1,000

No election has been made to exempt the profits of the overseas permanent establishment and no double tax agreements exist.

**Calculate the Corporation Tax liability for Flaff Ltd for the year ended 31 December 2022.**

## Module D: Taxation of Individuals

If you have entered for Module D you must answer Questions 37 – 48 and type your answers between the question dividers 37 – 48.

37. Ram had the following income for 2022/23:

	£
Salary	104,000
Interest	800
Dividends	5,200

**Calculate Ram's Income Tax liability for 2022/23.**

38. Sunita's gross salary for 2022/23 was £56,000 from which her employer deducted occupational pension contributions of £3,000. She received dividends of £1,300 and made a Gift Aid donation of £800.

She is a single mother and she received child benefit of £1,885.

**Calculate Sunita's high income child benefit charge for 2022/23.**

39. Claire owns a furnished cottage in the UK. Since 2014, the cottage has been available for short-term lets (not more than seven days) for nine months of the year. It was let for 80 days in 2022/23, down sharply on 150 days in 2021/22. This was due to a problem with the rental agent's booking system which has now been fixed.

**Explain whether the cottage will be treated as a furnished holiday let for 2022/23.**

40. Tom was first provided with the use of a car by his employer, RDoor Ltd, on 6 October 2022. The car has a list price of £58,000, CO<sub>2</sub> emissions of 32g/km and an electric range of 100 miles. Tom made a capital contribution of £5,700 towards the cost of the car and pays £50 per month in respect of his private use of the car.

**Calculate the Class 1A National Insurance Contributions payable by RDoor Ltd for 2022/23.**

41. Minal had employment income of £250,000 for 2022/23. Her employer made pension contributions of £50,000 on her behalf. She had unused annual allowance of £6,000 from 2021/22.

**Calculate the 2022/23 annual allowance charge and the additional Income Tax payable by Minal as a result of the charge.**

42. Zohan subscribed for 100,000 £1 Ordinary shares in Calcyoulate Ltd on 1 September 2022. All of the conditions for claiming Enterprise Investment Scheme relief were met at that date. Zohan's Income Tax liability was £22,000 for 2022/23 and £46,000 for 2021/22.

Zohan has been asked to become a director of Calcyoulate Ltd, effective from 1 December 2023. A small wage will be paid to compensate Zohan for his time.

**Explain, with the aid of calculations, how Enterprise Investment Scheme Income Tax relief will be given for the subscription and whether or not the claim will be affected should Zohan become a director of the company.**

43. Schtuff Ltd is a family-controlled company. On 1 August 2022, the company awarded a key employee, Alan, 10,000 £1 Ordinary shares at nominal value. The market value of the shares at that time was significantly higher. The intention is for Alan to keep the shares for a number of years as part of his increased involvement in the management of the company.

**Explain how Alan's Income Tax liability in respect of the award will be calculated and paid over to HMRC and whether there are any reporting obligations for the company.**

44. Finggs Ltd has two employees: Meg and Laura.

Meg is a director of the company, earning a salary of £20,000 per annum.

Laura is an employee, earning £150 per week.

**Calculate the Class 1 National Insurance Contributions payable by Meg, Laura and Finggs Ltd and explain whether the company may claim the employment allowance.**

45. Issa is UK-resident. Between 6 April 2022 and 5 April 2023, he was employed full-time in Scotland. He spent the working week in rented accommodation in Scotland (240 days) and the rest of the time at his home in England, where his wife and children live.

**Explain whether Issa is a Scottish taxpayer for 2022/23.**

46. On 8 December 2022, Neema sold 1,000 shares in BtsnBbs plc for £20 per share. She had bought shares in the company as follows:

<u>Date</u>	<u>Number of shares</u>	<u>Cost per share</u>
17 August 2015	2,500	£2
28 March 2019	500	£7
14 December 2022	250	£15

On 17 February 2023, she sold an antique vase for £9,000. She had bought the vase on 7 May 2016 for £400.

On 10 March 2023, she sold her share in a racehorse for £10,000. She had paid £24,000 for her share on 8 October 2018.

**Calculate the net capital gain or allowable loss for 2022/23 clearly showing your treatment of all items. Ignore the annual exemption.**

47. Sam owns a building which is divided into three units, all of which are in commercial use. On 1 February 2023, Sam sold Unit 1 for £90,000, incurring estate agent's fees of £900. The combined value of Units 2 and 3 at that time was £270,000.

Sam had bought the building for £220,000 on 1 May 2017, paying Stamp Duty Land Tax of £1,400.

Sam is a higher-rate taxpayer for 2022/23. He had made no other disposals of chargeable assets in the year.

**Calculate the 2022/23 Capital Gains Tax payable by Sam.**

48. Alice received a notice to file a tax return for 2021/22 on 31 December 2022. On 31 October 2023, she filed the 2021/22 return online and made her balancing payment of Income Tax for the tax year of £3,800.

**Calculate the penalties payable by Alice for the late submission of her tax return and the late payment of her Income Tax liability.**

## Module E: Taxation of Unincorporated Businesses

If you have entered for Module E you must answer Questions 49 – 60 and type your answers between the question dividers 49 – 60.

49. Mateo started trading on 1 November 2021. For the 15-month period ended 31 January 2023, his draft trading profit was £142,000 after deducting the following expenses:

Premium paid on new 10-year lease of office premises on 1 November 2021	£ 20,000
Legal expenses:	
Registering a patent for trade use	8,000
Relating to the above new lease of office premises	7,500

**Calculate Mateo's taxable trading income for the 15-month period ended 31 January 2023, showing your treatment of all items.**

50. Noah and Olivia have been trading in partnership for many years, preparing accounts to 31 March.

At 1 April 2022, the tax written down values of the partnership's cars were as follows:

Nissan Juke used by Noah (CO <sub>2</sub> emissions 48g/km)	£ 12,500
Toyota Auris used by Olivia (CO <sub>2</sub> emissions 45g/km)	16,500

On 1 June 2022, Penelope joined the partnership, bringing with her a Range Rover car which had CO<sub>2</sub> emissions of 179g/km. The car cost £50,000 when purchased in October 2020 and was valued at £39,000 on 1 June 2022.

During the year ended 31 March 2023, the private use of all the partners' cars was 40%.

**Calculate the partnership's maximum capital allowances in respect of the cars for the year ended 31 March 2023.**

51. Luna runs a bed and breakfast business near to a busy airport.

Luna lives on the ground floor of the premises with her husband and son. The top two floors consist of seven guest bedrooms and a small kitchen and dining room which she uses to cook and serve breakfast to her guests. The floor area of each of the three floors is the same.

As part of the service, she provides her guests with transport to and from the airport in her car. Her total mileage during the year ended 5 April 2023 was 15,500 miles, of which 9,500 miles were business journeys.

**Explain the tax allowable deductions for Luna in respect of the car and the premises if she makes a claim for:**

- 1) Actual expenses; or**
- 2) Flat rate expenses.**

52. Imani has always prepared accounts to 30 November, but decided to change her accounting date to 30 April.

Her tax adjusted trading profits for the year ended 30 November 2021 were £32,400 and for the 17-month period from 1 December 2021 to 30 April 2023 were £51,000.

- 1) Explain the conditions that must be satisfied for a change of accounting date to be valid for Income Tax purposes.**
- 2) Calculate Imani's trading income assessment for 2022/23, stating the basis period.**

53. Kizzy has always prepared accounts on the accruals basis, but for the year ended 31 December 2022 she elected to prepare accounts on the cash basis.

Her cash receipts less cash payments for the year ended 31 December 2022 were £29,750. Included in this figure is £950 paid on 9 February 2022 in respect of a purchase invoice dated 28 November 2021 which had already been accounted for under the accruals basis in the year ended 31 December 2021.

The following items were not included in the calculation of the net receipts figure of £29,750:

- 1) Interest of £680 charged on Kizzy's credit account with a supplier.
- 2) Goods taken out of the business for Kizzy's personal use. The goods had a cost price of £125 and a selling price of £260.
- 3) Leasing costs of £4,800 for a car with CO<sub>2</sub> emissions of 72g/km of which private use by Kizzy is 20%.

**Calculate Kizzy's taxable trading income for the year ended 31 December 2022, showing your treatment of all items.**

54. Levi ceased trading on 28 February 2023, having previously prepared accounts to 31 December. For his final 14-month period of account to 28 February 2023, his adjusted trading profits before capital allowances were £37,000.

The tax written down values of Levi's plant and machinery at 1 January 2022 were as follows:

	£
Main pool	8,000
Levi's car (CO <sub>2</sub> emissions 33g/km, 75% business use)	7,700

On 28 February 2023, all the assets in the main pool were sold for £9,500. No asset was sold for more than original cost. Levi kept his car, which was valued at £6,000 at that date. There were no other additions or disposals of capital assets in the final period.

Overlap profits brought forward from the start of trade were £5,975.

**Calculate Levi's trading income assessment for 2022/23.**

55. Iqbal has been trading for several years. In 2022/23, he made a trading loss of £39,000 which he wishes to relieve against his other income and gains in that year.

In 2022/23 his only other income was property income of £23,000. He also had current year capital gains, net of current year capital losses, of £32,000 and a capital loss brought forward at 6 April 2022 of £20,000.

**Calculate Iqbal's taxable gains in 2022/23, assuming that he claims relief for his trading loss under s.64 ITA 2007 and s.71 ITA 2007. You should show your treatment of the trading loss and the brought forward capital loss.**

56. Will (age 74) and his daughter Grace (age 46) have been in partnership for many years, sharing profits and losses in the ratio 60:40. The partnership's recent tax adjusted trading profits/(losses) were as follows:

	£
Year ended 31 December 2021	(8,000)
Year ended 31 December 2022	150,000

Both Will and Grace made claims to relieve their shares of the partnership's trading loss in 2021/22 under s.64 ITA 2007 against their total income of the same year.

**Calculate the National Insurance Contributions payable by Will and Grace for 2022/23, showing your treatment of the trading loss in 2021/22.**

57. Aaliyah is a sole trader preparing accounts to 5 April each year. Her tax return for 2020/21 was submitted on time and showed taxable trading income of £30,000. On 17 November 2022, Aaliyah received notice of a formal enquiry by HMRC into her 2020/21 tax return. Aaliyah then disclosed that she had deliberately understated her 2020/21 trading income by £6,000, although she had made no attempt to conceal it.

**Explain, with calculations, the minimum penalty that could be charged by HMRC in respect of Aaliyah's understatement of trading income on her 2020/21 tax return.**

58. On 1 March 2023, Elias transferred his entire sole trader business, which he had started in 2007, to Elyass Ltd. The consideration for the transfer was wholly in the form of shares in Elyass Ltd.

**Explain:**

- 1) **The effect of Capital Gains Tax Incorporation Relief on the transfer of Elias's sole trader business to Elyass Ltd; and**
- 2) **The conditions that must be satisfied in order for the relief to apply.**

59. On 25 December 2022, Isaiah gave 50,000 ordinary £1 shares (a 10% holding) in Alkdodge Ltd, an unquoted trading company, to his daughter, Aurora. The gain on the disposal was £65,000.

Isaiah had worked for the company since he bought the shares in 2014. The market value of the company's assets on 25 December 2022 were as follows:

	£
Freehold office building	750,000
Freehold warehouse (see Note)	250,000
Goodwill	200,000
Plant and machinery (see Note)	180,000
Net current assets	20,000

Notes

The freehold warehouse has always been let out to an unconnected third party.

None of the individual items of plant and machinery had a cost or market value at 25 December 2022 of more than £6,000.

Isaiah is a higher rate taxpayer. He has already used his Capital Gains Tax annual exemption for 2022/23.

**Calculate the Capital Gains Tax payable by Isaiah on the transfer, assuming all beneficial reliefs are claimed.**

60. Xinia and Yvonne have been in partnership since 2015, sharing capital profits equally.

At 6 April 2022, the partnership's capital assets comprised a commercial property which was bought in 2018 for £180,000, and internally generated goodwill which had not been valued to date.

During 2022/23, the following events took place:

- 1) On 1 May 2022, the commercial property was sold for £250,000.
- 2) On 5 October 2022, the goodwill was valued and recognised in the accounts at £240,000.
- 3) On 5 April 2023, Zoe joined the partnership, paying consideration equal to one-third of the market value of the partnership assets. From that date the capital profits were to be shared equally between the three partners.

**Explain, with calculations, the immediate Capital Gains Tax implications, if any, for Xinia and Yvonne of each of these events identifying any relevant claims for relief.**