



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2017

Suggested solutions

Awareness Module E Taxation of Unincorporated Businesses

1. **Lynette**

The factors to be taken into account by HM Revenue and Customs are:

- 1) Control test – the degree of control over Lynette is limited; she organises her own diary – suggesting self-employed.
- 2) Provision of own equipment – Lynette uses Teleprod Ltd equipment- suggesting employment.
- 3) Financial risk – Lynette was not paid when ill – suggesting self-employment.
- 4) Profit from sound financial management – Lynette was paid a fixed fee for a day, so is unable to profit from sound financial management – suggesting employment
- 5) Substitutes – Lynette was able to provide a substitute to Teleprod Ltd when ill – suggesting self-employment.

Other relevant factors will gain credit.

1 mark per factor – max 5 marks

2. **Carlos - Amounts to be added back**

	£	
Motor expenses:		
Lease hire costs £3,600 – (£3,600 x 85% x 60%)	1,764	2
Lease premium deduction:		
Allowable amount		
£20,000 x (50-9)/ 50 = £16,400 x 1/10 = £1,640		2
So add back £20,000 - £1,640	18,360	1

3. **Susan, Bree and Gabrielle**

	Total	Susan	Bree	Gabrielle	
	£	£	£	£	
Year ended 31 March 2017					
Salary	25,000	25,000	-	-	1
Interest on capital (4%)	<u>12,800</u>	<u>8,000</u>	<u>4,000</u>	<u>800</u>	1
	37,800	33,000	4,000	800	
PSR (1:1:1)					
£(30,000 – 37,800)	<u>(7,800)</u>	<u>(2,600)</u>	<u>(2,600)</u>	<u>(2,600)</u>	1
	30,000	30,400	1,400	(1,800)	
Reallocation of notional loss 30,400:1,400	_____	<u>(1,721)</u>	<u>(79)</u>	<u>1,800</u>	2
Share of profits	<u>30,000</u>	<u>28,679</u>	<u>1,321</u>	<u>Nil</u>	

4. **Mike**
Opening year rules

	<u>Trading profits</u> £
2014/15	
Period from commencement to 5 April	
1 November 2014 – 5 April 2015	1
5/18 x £90,000	<u>25,000</u> 1
2015/16	
Actual tax year	
6 April 2015 to 5 April 2016	1
12/18 x £90,000	<u>60,000</u> 1
2016/17	
12 months ending in the tax year	
1 May 2015 – 30 April 2016)1
12/18 x £90,000	<u>60,000</u>)

5. **Caleb**
Capital allowances year ended 31 March 2017

	Main pool £	Special rate pool £	Allowances £	
TWDV b/f	20,000			
Additions				
Machinery – air conditioning		160,000		
Other machinery	90,000			
AIA - special rate pool first	(40,000)	(160,000)	200,000	2*
Car (emissions exceeding 130g/km)	_____	<u>25,000</u>		1
	70,000	25,000		
WDA@ 18%	<u>(12,600)</u>		12,600	1
WDA @8%		<u>(2,000)</u>	<u>2,000</u>	1
TWDV c/f	<u>57,400</u>	<u>23,000</u>		
Capital allowances for year ended 31 March 2017			<u>214,600</u>	

**1 mark for both items of machinery in the correct pool; 1 mark for AIA to SRP first.*

6. **Eva**

Eva has the following options available to relieve her trading loss:

Terminal loss relief – s.89 ITA 2007

Relief is given against trading profits of the three preceding tax years on a last in first out (LIFO) basis. 2

Current year and carry back – s.64 ITA 2007

Relief is available against net income (before personal allowance) of the tax year of the loss (2016/17) and/or the preceding tax year (2015/16). 1

Gains – s.261B TCGA 1992

The loss of the nine months ended 31 December 2016 (2016/17) may be relieved against the gain on disposal of the property in 2016/17. 1

However, this can only occur if the loss is first relieved against the £200 of bank interest in 2016/17 under s.64 ITA 2007. 1

7. **Porter**

2016/17

1) Small part disposal election

If a small part disposal election is made there is no immediate gain 1

However, the base cost of the remaining factory and land is reduced:

Original cost	350,000	
Less sale proceeds	<u>(18,000)</u>	
	<u>332,000</u>	1

2) No election

	£	
Sale proceeds	18,000	
Less cost (W)	<u>(15,072)</u>	
Chargeable gain	<u>2,928</u>	1

Working

A	x £350,000	
A+ B		
18,000	x £350,000	
18,000 + 400,000	<u>15,072</u>	1
Base cost of the remainder (£350,000 – £15,072)	<u>334,928</u>	1

8. **Dylan**

- 1) If all assets are transferred to the company in exchange for shares then incorporation relief will automatically apply. 1
 The gains on the assets will be deferred in full. 1
 The base cost of the shares received will be reduced by the deferred gains to become (market value of the shares at incorporation – deferred gains) 1
- 2) If there is mixed consideration then the cash proportion of the consideration applied to the gain will be chargeable. The chargeable gain will be apportioned in the ratio of the gain on the building to the gain on the goodwill. The goodwill part will not be eligible for entrepreneurs' relief and will be taxed at 20%. The part relating to the building will be eligible for entrepreneurs' relief and will be taxed at 10%. 3

Maximum 5 marks

9. **Lee, Bob and Chuck**

Transfer of the office building to Chuck

Chuck has not made a disposal for CGT purposes. He has a 'notional' gain of £90,000.

	£	
Sale proceeds (1/3)	120,000	
Cost (1/3)	<u>(30,000)</u>	
Gain	<u>90,000</u>	1

The notional gain is deferred against the base cost of the building until its future sale.

	£	
Cost (market value)	360,000	
Deferred gain	<u>(90,000)</u>	
Revised base cost	<u>270,000</u>	1

Disposal of the office building by Chuck

A chargeable gain arises on the sale in March 2017. As Chuck is a higher rate taxpayer this is subject to Capital Gains Tax at 20% after deducting the annual exempt amount.

	£	
Sale proceeds	750,000	
Cost	<u>(270,000)</u>	
Gain	480,000	1
Less annual exempt amount	<u>(11,100)</u>	1
	<u>468,900</u>	
CGT @ 20%	<u>93,780</u>	1

10. Nicollette

Household bills

Nicollette can claim to deduct either:

- 1) The business proportion of household bills such as rent/ mortgage and utilities; or **1**
- 2) A monthly flat rate deduction of £18, as she works between 51 and 100 hours per month **1**

New car

Nicollette can claim to deduct either:

- 1) Capital allowances (restricted for private use) and the business proportion of running costs; or **2**
- 2) A deduction of 45p per mile for the first 10,000 business miles and 25p per mile for each additional mile. **1**

11. Self-assessment returns

- 1) An individual who started trading in June 2016 i.e. in 2016//17, should submit an online return by the later of
 - 1) 31 January 2018; and **1**
 - 2) Three months from issue of a notice to submit a return. **1**
- 1) Potential penalties for submitting late are:
 - 1) An initial penalty of £100. **1**
 - 2) If more than 3 months late, daily penalties of £10 per day for up to 90 days. **1**
 - 3) If more than 6 months late, 5% of any liability to tax that would be shown in the return, or £300 if greater. **1**

12. Dana

National Insurance Contributions payable by Dana are:

	£	
2015/16		
Class 2 – no trading profits (below small profits threshold)	Nil	1
Class 4 – no tax-adjusted trading profits	Nil	1
2016/17		
Class 2 (52 x £2.80)	146	1
Class 4 ([£30,000 - £10,000] – 8,060) x 9%	<u>1,075</u>	2
	<u>1,221</u>	