



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

May 2017

Suggested solutions

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## **Awareness Module E Taxation of Unincorporated Businesses**

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1.

1)	Cash basis		
Cash basis of accounting		£	
Sales receipts in year		28,500	1*
Goods paid for during the year		(23,300)	1*
Staff wages		(7,400)	1
Loan interest - restricted to		(500)	1
Loss for the year		<u>£(2,700)</u>	

**\* Only awarded if entirely correct i.e. income excludes amount owing and goods to include what is held in stock.**

2)

The loss for the year can only be carried forward to set against future profits from the same trade as they arise. When using the cash basis of accounting sideways and carry back relief is not permitted. 1

2.

	Total £	Bob £	Jack £	
Allocation of profits				
6.4.16 – 5.10.16				
6/12 x £88,000	44,000	44,000		1
6.10.16 – 5.4.17				
6/12 x £88,000	<u>44,000</u>	<u>26,400</u>	<u>17,600</u>	1
	<u>88,000</u>	<u>70,400</u>	<u>17,600</u>	
Class 2 National Insurance				
£2.80 x 52 weeks		<u>£146</u>		1
£2.80 x 26 weeks (or 6/12 x £146)			<u>£73</u>	
Class 4 National Insurance				
(43,000 – 8,060) x 9%		3,145		
(70,400 – 43,000) x 2%		548		
		<u>£3,693</u>		2
(17,600 – 8,060) x 9%			<u>859</u>	

3.

Loss memo	£	
Loss for 2016/17	91,000	
Use in 2016/17 (no income, no current year claim)	- )	
Use in 2015/16 (not beneficial as income below personal allowance)	- )	1*
2013/14 – restricted	(50,000)	3**
2014/15 - balance	<u>(41,000)</u>	1
Loss carried forward	≡	

**\* Given without explanation why not used as long as some reference to current/prior year claims made**

**\*\*1 mark for £50,000, 1 mark for 3 years i.e. having done early years' loss relief, regardless of order, 1 mark for 2013/14 first**

4.

1)

2016/17 = Final year of trading  
Closing year rules:

Y/e 30.6.16	36,000	1
P/e 28.2.17	32,000	1
Overlap profits	(11,500)	1
	<u>£56,500</u>	

2)

Post cessation receipts

An income tax charge would arise on the receipt in April 2018 such that this income would be part of Perry's income for the 2018/19 tax year. 1

However, Perry could elect to have the post cessation receipt taxed in the year of cessation instead. 1

5.

1) The 2015/16 partnership return should have been submitted by 31 January 2017. 1

When a partnership return is filed late, each partner is liable to a late filing penalty, initially of £100 per partner. 2\*

As Jill filed a provisional return before the filing deadline, there will be no penalty for her personal tax return. 1

2) Now that the final partnership figures are ready, Jill should submit an amendment to her personal return to provide the actual figures to replace her estimates. 1

**\*Question asks for the penalties for Jill - for the two marks there needs to be some clear indication of understanding that the penalty is charged personally not on the partnership. Mention simply of £100 will gain just one mark.**

6.

	Warehouse £	Storage unit £	
Market value as Paul/Kerry connected	140,000	42,000	1
Original cost	(65,000)	(20,000)	
Gain	75,000	22,000	
Gift relief		Not qualifying as not used in business	1
Restricted as cash received – balancing figure	(20,000)		1
Gain remaining chargeable		<u>£22,000</u>	
Lower of:			1
(i) £120,000 – 65,000	<u>£55,000</u>		
(ii) Gain at MV £75,000			
Base cost c/f for Kerry:			
Market value	140,000	42,000	
Held over gain	(20,000)	N/A	
	<u>£120,000</u>	<u>£42,000</u>	1

7.

	Main pool £	Special rate pool £	Private use car £	Allowances £	
TWDV b/fwd	7,200	18,800			
Disposal proceeds	<u>(8,000)</u>				
	(800)				
Balancing charge	<u>800</u>			(800)	1
WDA – 8% x 14/12		<u>(1,755)</u>		1,755	2
FYA addition			21,500		
FYA – 100%			<u>(21,500)</u>		1
B.U element			x	<u>16,125</u>	1
<u>(18,000 – 4,500)</u>			75%		
18,000					
TWDV c/fwd	<u>£0</u>	<u>£17,045</u>	<u>£0</u>		
Total allowances				<u>£17,080</u>	

8.

- 1) Disallowable - only staff entertaining is allowable. 1
- 2) Allowable - the *renewal* of a *short* lease is allowable. 1
- 3) Allowable - private use by an employee does not affect the allowable deduction so the full £3,400 is deductible. 1
- 4) Allowable - as this is a local charity the cost is deductible. 1
- 5) Disallowable – the ovens would be allowable expenditure for capital allowances, and probably in full if the AIA is available, but would be disallowed as normal expenditure as they are capital in nature. 1

9.

	ER qualifying £	Non-ER qualifying £	
Office building	180,000		
Goodwill		100,000	
Capital losses brought forward		<u>(13,000)</u>	1*
	180,000	87,000	
Annual exempt amount		<u>(11,100)</u>	1*
Taxable gains	<u>180,000</u>	<u>75,900</u>	
CGT @ 10%	<u>£18,000</u>		1
CGT @ 20%		<u>£15,180</u>	1
Total CGT liability	<u>£33,180</u>		

**\*Only award 1 of these 2 if set against ER instead or if ER/Non-ER not identified correctly**

10.

1)	Total	Oliver 60%	Poppy 40%	
	£	£	£	
Market value 31.3.17	400,000	240,000	160,000	
Original cost	<u>(280,000)</u>	<u>(168,000)</u>	<u>(112,000)</u>	
Gain	<u>120,000</u>	<u>72,000</u>	<u>48,000</u>	2

However, as Poppy is not giving up her share of the asset, the notional gain of £48,000 will not be charged to capital gains tax for her. 1\*

**\*Explanation not needed but clear indication that there is no gain for Poppy would be necessary**

2) The base cost for Poppy will be:	£	
Market value 31.3.17	400,000	1
Notional gain	<u>(48,000)</u>	1
Base cost c/f	<u>£352,000</u>	

11.

For tax purposes, an LLP itself is not charged to Income Tax or National Insurance (NIC), but each of the partners is assessed on their share of profits. 1

However, this is not the case where there appears to be disguised employment where all three of the following conditions are met: 1

Condition A – Disguised salary

Condition B – No significant influence over the affairs of the LLP

Condition C – No significant investment in the LLP 1

Nick and Tim are clearly to be treated as self-employed individuals and will pay Class 4 NICs on their share of the profits and Class 2 NICs. 1

Caroline's position appears to meet the conditions for disguised employment as she receives a fixed amount not dependent on profits; the meetings take place without her and she did not introduce any capital. 1

Therefore, Caroline is treated as being employed by the LLP paying Income Tax and Class 1 primary NIC under PAYE, and with Class 1 secondary NIC payable by the LLP. 1

**Maximum 5 marks**

12.

As the consideration is being paid by instalments over a period in excess of 18 months which ends after the normal due date, an election can be made under s.280 TCGA1992.

1\*

Rick will be expected to pay instalments of CGT equal to 50% of each instalment of consideration received:

1

Date	Consideration received £	Max CGT @ 50% £
1 March 2017	200,000	100,000
1 March 2018 - 2021	250,000	125,000

CGT is never due earlier than the normal due date so £100,000 in respect of consideration received 1 March 2017 will not be payable until 31 January 2018.

1

The next payment of £125,000 will be due on 1 March 2018 with the balance due on 1 March 2019, capped at £5,800 (the remainder of the tax due £230,800 – £225,000)

2

***\*Doesn't need to be specifically referenced but awarded for recognising that this is the only option for Rick as he wouldn't qualify to pay by instalments under s281 TCGA 92 (not a gift)***