



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

6 November 2019

## **AWARENESS**

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

1. Mark began trading many years ago and had always prepared accounts to 30 June each year. However, he decided to change his accounting date to 31 December and recent results have been as follows:

	<u>Tax adjusted trading profits</u>
	£
Year ended 30 June 2017	28,000
Year ended 30 June 2018	26,000
Six months ended 31 December 2018	21,000

Mark had nine months of overlap profits brought forward of £9,000.

Calculate:

- 1) The trading income assessment for 2018/19.
- 2) The Class 4 National Insurance payable by Mark for 2018/19.

① year of change = 18/19 <del>to</del> earlier of (a)										
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">y/e 30/6/18</td> <td style="text-align: right;">26,000</td> </tr> <tr> <td>1/12/18 - 31/12/18</td> <td></td> </tr> <tr> <td>(26,000 × 6/12)</td> <td style="text-align: right;">13,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">21,000</td> </tr> <tr> <td></td> <td style="text-align: right;">24,000.</td> </tr> </table>	y/e 30/6/18	26,000	1/12/18 - 31/12/18		(26,000 × 6/12)	13,000		21,000		24,000.
y/e 30/6/18	26,000									
1/12/18 - 31/12/18										
(26,000 × 6/12)	13,000									
	21,000									
	24,000.									
overlap increased by 13,000.										
② (24,000 - 8,424) × 9%.										
= £1,402.										
④ The earlier of when made to new accounting date or when not made to old accounting date.										



2. Kerry's tax adjusted trading profits for the year ended 31 December 2017 were £28,000.

Kerry ceased trading on 31 August 2018. The tax adjusted trading loss for the final period to 31 August 2018 was £24,000.

Kerry had three months of overlap profits brought forward of £5,500.

Calculate the amount of the loss available for terminal loss relief.

1/1/17 - 31/12/17	→ 28,000	(12m)	
1/1/18 - 31/8/18	→ (24,000)	(8m)	
overlap	→ (5,500)	(3m)	
6/4/18 - 31/8/18 = 5 months			
5/8 × 24,000		(15,000)	
overlap		(5,500)	
			(20,500)
1/9/17 - 5/4/18			
4/12 × 28,000		9,333	
3/8 × 24,000		(9,000)	
		333 → nil as profit	—
terminal loss			(20,500)



3. Donald and Paul have been in partnership for many years. The partnership prepared accounts to 30 September each year and profits were shared equally.

Sally joined the partnership on 1 January 2019. The partnership agreement was amended from that date to allow for annual salaries of £10,000 to Donald and £12,000 to Sally, with remaining profits being shared equally between the three partners.

For the year ended 30 September 2019 the partnership's tax adjusted trading profit was £60,000.

Calculate Sally's trading income assessment for 2018/19. → ~~5/4/19~~ 1/1/19 - 5/4/19

	Total	Donald	Paul	Sally
<del>30/11/10/19 - 31/12/19 (3m)</del>				
$60,000 \times \frac{3}{12}$	15,000	7500	7500	
1/1/19 - 30/9/19 (9m)				
$60,000 \times \frac{9}{12}$	45,000			
Salary				
$(10,000 \times \frac{9}{12})$	(7500)	7500		
$(12,000 \times \frac{9}{12})$	(9000)			9000
	28,500			
PSR (1:1:1)	(28,500)	9500	9500	9500
				18,500
1/1/19 - 5/4/19 = 3m				
$\frac{3}{9} \times 18,500 = 6167$				



4. Susan prepared accounts for the year ended 31 March 2019. The following expenses have been deducted in the calculation of the trading profit for the year:

- 1) Legal fees of £2,200 in connection with the renewal of a 30-year lease on the business warehouse.
- 2) Legal fees of £800 on the creation of employee contracts.
- 3) Lease premium amortisation of £1,800 which relates to a lease premium of £18,000 which was paid on 1 April 2018 for a new 10-year lease on a retail unit.

Briefly explain, with supporting calculations, any necessary adjustments to the trading profit for each of these items.

① This is an allowable deduction as relates to a short lease (less than 50 years). As such no adjustment is required.

② This must be added back as legal fees are only deductible if relates to a short lease.

③  $\text{premium} = 18,000 \times 2\% \times (10-1)$   
 $= 324$  is allowable as well as  
 $\text{£1800}$   
 $\rightarrow$  need to deduct further  $\text{£324}$ .




5. Barry began trading on 1 July 2016 and prepares accounts to 31 March each year. The tax-adjusted trading profits for recent periods were as follows:

	Profit/(Loss)
	£
Period ended 31 March 2017 (1 July - 31 March)	1,000 (9m).
Year ended 31 March 2018	3,000
Year ended 31 March 2019	(20,000)

Prior to 1 July 2016, Barry had been employed on an annual salary of £18,000.

Show how the loss for the year ended 31 March 2019 would be relieved if Barry makes a claim for early years' relief, stating the deadline for the claim to be made.

- loss can be set against 36 months prior to trading on a FIFO basis if loss made within <del>9</del> first 4 years of trading.				
- <del>only</del> → set against <del>4/15, 15/16</del> 13/14, 14/15 and 15/16 salary.				
- <del>only 9 months</del>				
	12/13	13/14	14/15	15/16
salary	18,000	18,000	18,000	18,000
loss				
less ( <del>9/12</del> × 20,000)			-	-
3/12 × 20,000	<u>(5,000)</u>	<u>(15,000)</u>	-	-
	13,000	3,000	18,000	18,000
- must claim by anniversary of 31 January following period end.				
→ 31 January 2021.				



6. Jacob made a trading loss in the year ended 31 March 2017 of £18,000 which he claimed to offset against his property income of £30,000 for the year.

The tax adjusted trading profits for the years ended 31 March 2018 and 31 March 2019 were £8,000 and £59,000 respectively.

Calculate the total National Insurance payable by Jacob for 2018/19.

	Tax adjusted trading	59,000	
	loss → even though	(10,000)	
		<del>(18,000)</del>	
	set against property income	<u>41,000</u>	49,000.
	still carried forward		
	→ 8000 set against 17/18 profit.		
	Class 2 national insurance		
	$2.95 \times 52 = 153.$		
	Class 4.		
	<del><math>(41,000 - 8,424) \times 9.1 = 2933</math></del>		
	$(46,350 - 8,424) \times 9.1 = 3413$		
	$(49,000 - 6,350) \times 2.1 = 53$		
			<u>3466.</u>



7. During the 15-month period ended 31 March 2019, Clara purchased machinery at a cost of £280,000 and a new car (CO<sub>2</sub> emissions 40g) at a cost of £11,500. The car is used entirely for business purposes.

The tax written down value brought forward on the main pool was £22,600.

Calculate the maximum capital allowances for the 15-month period to 31 March 2019.

	ATA	FYA	main	claim.
wbv			22,600	
additions - machine	280,000		30,000	
car		11,500		
	280,000	11,500	52,600	
ATA				
(280,000 x 15/12)	(280,000)			280,000
FYA		(11,500)		11,500
wbv @ 18.1% x 15/12			(11,835)	11,835
			40,765	273,335




8. On 1 April 2002, Ross purchased business premises from his father, John, for £130,000 when the market value was £168,000. John had originally purchased the property for £102,000 in 1998. Ross and John made a joint election for gift relief on the transfer.

On 1 January 2019 Ross sold his entire business to Ben for £500,000. The proceeds were allocated as £400,000 for the premises with the remaining £100,000 being for the stock and some small items of plant and machinery (all valued at less than £6,000 each).

Calculate the Capital Gains Tax liability for Ross on the sale of the business, clearly showing the effect of the gift relief claim in 2002.

<del>gift relief</del>	
2002	
proceeds	168,000 <del>130,000</del>
cost	<u>(102,000)</u> 66,000 <del>28,000</del>
gift relief	<u>(38,000)</u> = 168,000 - 130,000 28,000 .
* deduct gift relief from base cost *	
base cost	130,000 - 38,000 = <del>168,000</del> = 92,000 .
- plant + machinery not included as exempt due to being <del>less than £5000</del> proceeds being less than £6000	



2019

£

proceeds

500,000

cost

(92,000)

408,000

ER @10%

40,800

9. Keith has provided the following information for the year ended 31 December 2018:

	£
Sales invoices issued to customers	78,000 ✓
Cash received from customers	60,000 ✓
Cash received on the sale of a piece of machinery	2,000 ✓
Purchase invoices received from suppliers	46,000 ✓
Payments made to suppliers	31,000 ✓
Payment for purchase of a replacement van	12,000 ✓
Utility expenses paid for his home (total of eight rooms)	1,850 ✓
Interest paid on a loan taken to purchase business equipment	870 ✓

Keith has elected to use the cash basis of accounting and wishes to claim flat rate expenses wherever possible. During the year ended 31 December 2018 he spent approximately six hours per week working from one room in his home and travelled 14,000 miles for business purposes.

Calculate Keith's taxable trading profit for 2018/19.

	£
cash received from customers	60,000
cash - machinery	2000
payments - suppliers	(31,000)
Van - 100% AJA	(12,000)
interest → maximum 500	(500)
home use → no flat rate	
→ utilities (1850 x 1/8)	(231)
mileage ((10,000 x 45p) + (4000 x 25p))	(5500)
	12,769




10. Jeff had the following Tax and National Insurance liabilities:

	2017/18	2018/19
	£	£
Income Tax	6,480	6,920
Class 2 National Insurance	148	153
Class 4 National Insurance	1,286	1,420
Capital Gains Tax	1,500	500

Briefly explain when the 2018/19 liabilities will be due for payment and the amount of each payment.

- pay in instalments as the liability is above £1000 and 80% has not been deducted. from source.	
- 50% of the tax due.	
→ 31 January 2019	
= $(6480 + 1286) / 2$	3883.
→ 31 <del>January</del> <sup>July</sup> 2019	3883.
→ 31 January 2020 = balancing payment.	
balancing	<del>3883</del> 574
class 2 NIC	153
CGT	<u>500</u>
	1227.




11. Julia, who is self employed, purchased the following cars during the year ended 31 March 2019:

Car	Used by	CO <sub>2</sub> emissions	Cost £
1	Employee – 40% private use	118g	25,000 → no private
2	Julia – 30% private use	181g	30,000

The tax written down values brought forward at 1 April 2018 were £14,800 on the main pool and £16,200 on the special rate pool.

Calculate Julia's maximum capital allowances for the year ended 31 March 2019.

	Car (118g)	Car (181g)	main	Sp	claim
wbv			14,800	16,200	
additions	<u>25,000</u>	<u>30,000</u>	—	—	
	25,000	30,000	14,800	16,200	
wpa @ 8%	(2000)				2000
wpa @ 8%		(2400) x 70%			1680
wpa @ 18%			(2664)		2664
wpa @ 8%				(1296)	1296
	<u>23,000</u>	<u>27,600</u>	12,136	14,904	7640



12. Rose has been a partner in the Xylex Partnership for many years but retired on 30 November 2018.

She sold her partnership share to Dean who subsequently joined the partnership on 1 December 2018. The property from which the partnership trades, which Rose owned 100% in her own name was sold to the remaining partners of the business.

Briefly explain whether the two disposals will qualify for entrepreneurs' relief for Capital Gains Tax purposes.

- In order to qualify for entrepreneurs relief:  
must be:

→ a material disposal of an asset

→ ~~disposal of asset~~ disposal of whole or part of a business.

- the shares will qualify for ~~entrepreneurs~~ entrepreneurs relief as she

is disposing of shares within a business  
(as long as she holds over 5% interest).

~~- the building will also qualify to be as  
it is deemed an associated disposal~~

~~- the building was also held for a period  
of over one year ending~~

~~- the building will only qualify if Rose~~

~~- the building will not qualify for as  
it was not an asset within the partnership.~~

As such it cannot be classified

as an associated disposal.





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