Candidate Number			

You must tick the box below if you have answered this Module.

THE CHARTERED INSTITUTE OF TAXATION

The Chartered Tax Adviser Examination

May 2009

AWARENESS

MODULE E – TAXATION OF UNINCORPORATED BUSINESSES

- You should only answer this module if you have not/do not intend to sit the Taxation of Owner-Managed Businesses Advisory paper.
- Each question carries 5 marks.
- You should answer all the questions from the modules you choose.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You must answer questions in the spaces provided.
- You may not need all the space provided.
- You should make all calculations to the nearest month and pound unless stated otherwise.

1. Ivor and Joseph have been in partnership for several years. They prepare accounts annually to 30 April. Profits have always been shared equally.

Kieran joined the partnership on 1 July 2008. He was entitled to a prior share of £18,000 per annum and the profit sharing ratio for the balance of profits changed to 2:2:1 (Ivor:Joseph:Kieran) from that date.

The partnership had an adjusted trading profit for the year ended 30 April 2009 of £90,000.

Calculate the taxable trading profit for all partners for the year ended 30 April 2009 and state the amount to be assessed on Kieran in 2008/09.

2. Nigel is a self-employed wine merchant. His latest accounts were prepared for the year ended 30 November 2008. The trading profit for the year was £67,000 including the following:

   1) Lease costs of £6,400 have been deducted in arriving at trading profit. These relate to an Audi car that is used by Nigel. The car had a retail price when new of £20,000, and Nigel uses the car 20% for private purposes.

   2) A charge of £2,000 for the legal fees to arrange the lease of new business premises.

   3) An amount of £3,600 described as subscriptions has been deducted in arriving at the profit figure. This includes £900 for the wine merchants’ trade journal and £2,700 membership fee for the local golf club where Nigel only entertains clients.

   Calculate the adjusted trading profit for Nigel for the year ended 30 November 2008 after taking account of items 1) to 3) above. Briefly explain your treatment of each item.

3. Olivia has completed a university course in engineering and is currently unemployed. In the past she collected old pieces of furniture and restored them as a hobby. In January 2009 she bought an old table and chairs at auction and restored them. In March 2009 she sold the table and chairs at auction and used the proceeds to fund the purchase of three further pieces of furniture that she is currently restoring. She is still looking for employment and knows that she will have less time for her hobby once she is employed.

Briefly state and explain the factors that HM Revenue & Customs will take into account when determining whether the profit Olivia made on the sale of the furniture will be assessed to tax as a trading profit.

4. Alastair is a self-employed car retailer. He purchased a showroom in 1995 at a cost of £64,000. He decided to relocate his business premises and sold the original showroom in August 2008 for £320,000. The new premises were purchased in June 2008 at a cost of £290,000. They are however bigger than Alastair needs and he rents out one fifth of the new premises to XJ Ltd who sell electrical goods.

   Explain whether Alastair will be able to claim rollover relief for the gain of £256,000 on the sale of his original showroom. Calculations are not required.

5. Faisal, who is self-employed, has seen trading conditions deteriorate and decided to cease trading on 31 January 2009. His adjusted trading profits/(loss) over recent periods have been as follows:

	£
Year ended 31 October 2005	23,000
Year ended 31 October 2006	20,000
Year ended 31 October 2007	8,000
Year ended 31 October 2008	2,000
Period ended 31 January 2009	(14,000)

Faisal had unrelieved overlap profits of £3,800.

Faisal has other taxable income of £6,000 each year from various investments.

Assuming that Faisal makes only a terminal loss relief claim, calculate Faisal's terminal loss and show, with a brief explanation, how it can be relieved.

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6. Caroline has been a self-employed florist for several years and prepares accounts to 31 August annually. She has found that the summer is a very busy time for her business and decided to change her accounting date to 31 January. The adjusted trading profits for her business have been as follows:

	£
Year ended 31 August 2007	30,000
Period ended 31 January 2009	45,000

Caroline had seven months of unrelieved overlap profits with a value of £9,800.

1) Calculate the trading profits to be assessed for 2008/09 and state the value of any overlap profits to be carried forward.

2) Advise Caroline of two conditions she must meet for the change of accounting date to be valid.

7. Albert and Ian are market traders and are each self-employed individuals.

Albert was born on 10 May 1940. He had an adjusted trading profit for 2008/09 of £17,000.

Ian was born on 16 July 1974. He had an adjusted trading profit for 2008/09 of £28,000. Ian made a trading loss of £5,000 in 2007/08. He made a claim to relieve the trading loss against general income in 2007/08.

Calculate, with brief explanations, the Class 4 National Insurance Contributions payable by Albert and Ian for 2008/09.

8. Sabrina paid Income Tax by self-assessment of £26,000 for 2006/07. She made the required payments on account for 2007/08 on their due dates. The Income Tax due by self-assessment for 2007/08 totalled £40,000. Sabrina paid the balancing payment for 2007/08 on 30 April 2009. She has decided that due to cash flow problems she will delay the payment of any surcharges until 31 May 2009.

Briefly explain and calculate the amount of any surcharges and interest that Sabrina will have to pay on the amounts due in respect of 2007/08.

Assume the rate of interest on overdue tax is 7.5% per annum.

9. Abdul, a sole trader, made an adjusted trading loss for the year ended 31 March 2009. The adjusted trading profits/(loss) of his business are as follows:

	£
Year ended 31 March 2008	17,000
Year ended 31 March 2009	(11,000)
Year ended 31 March 2010 (estimated)	3,000

Abdul also has rental income of £6,000 per year from an investment property he owns.

Abdul has never made any chargeable disposals for Capital Gains Tax.

Explain the options available to Abdul to relieve the trading loss of the year ended 31 March 2009, and advise him as to which option he should choose. You are not required to calculate Abdul's tax saving from the use of the loss.

10. Simon prepared accounts for the year ended 31 March 2009. He had the following tax written down values brought forward at 1 April 2008:

	£
Main pool	5,700
Expensive Car – used by Simon 80% for business purposes	13,000

During the year ended 31 March 2009, Simon had the following transactions:

	£
Purchased a new computer	16,000
Disposed of machinery that had originally cost £7,000	2,500
Installed a ventilation system and external solar shading	40,000

Calculate the maximum capital allowances that Simon may claim for the year ended 31 March 2009.

11. Michael decided to incorporate his long established sole trader business on 1 January 2009. All of the business assets except cash were transferred to a newly formed company, M Ltd. The market value of the net assets, at incorporation was £250,000. The only chargeable assets were a property and goodwill as follows:

	Cost	Market Value at 1 January 2009
	£	£
Property (purchased March 1994)	45,000	130,000
Goodwill	-	80,000

On incorporation, Michael received consideration of 10,000 ordinary shares of £1 each in M Ltd together with £40,000 cash.

Michael made other chargeable disposals in 2008/09 sufficient to use the annual exemption. He has not invested in any other assets or shares.

Assuming Michael wants to utilise all possible reliefs, calculate the chargeable gain on incorporation.

12. Julie and Anna have been in partnership for many years sharing capital and trading profits and losses equally. They have built up the goodwill of their business from nothing. In May 2008 they decided to admit Emma into the partnership. Prior to this, on 30 April 2008, they revalued the goodwill in the accounts at a value of £120,000. After Emma joined the partnership the capital and trading profits and losses were shared 2:2:1 (Julie:Anna:Emma).

Explain the Capital Gains Tax issues arising from Emma joining the partnership and from the revaluation of the goodwill.