

Answer to Example 2

Allocate the trading income for accounting periods between the partners.

Profits will be allocated between the partners as follows:

	<i>Total</i>	<i>Ann</i>	<i>Beryl</i>	<i>Clair</i>
		£	£	£
y/e 30/6/2016	12,000	6,000	6,000	–
y/e 30/6/2017	14,000	7,000	7,000	–
y/e 30/6/2018	24,000	8,000	8,000	8,000

Compute each partner's trading income as though they were a sole trader.

Ann and Beryl will both be assessed as follows, based upon a commencement on 1 July 2015:

		£
2015/16 (Actual)	1 July 2015 to 5 April 2016 ($6,000 \times \frac{9}{12}$)	4,500
2016/17 (CYB)	Year ended 30 June 2016	6,000
2017/18 (CYB)	Year ended 30 June 2017	7,000
2018/19 (CYB)	Year ended 30 June 2018	8,000

They will both carry forward overlap profits of £4,500 that arise between 2015/16 and 2016/17.

Clair will be treated as commencing trading on 1 July 2017, and will be assessed on her share of the partnership profits as follow:

2017/18 (Actual)	1 July 2017 to 5 April 2018 $\pounds 8,000 \times \frac{9}{12}$	6,000
2018/19 (CYB)	Year ended 30 June 2018	8,000

She will carry forward overlap profits of £6,000

Answer to Example 3

Paul will be entitled to terminal loss relief since he has actually ceased trading.

George will be entitled to claim opening years relief since he has actually commenced trading.

John and James will not be entitled to either of the above reliefs.

All the partners will be entitled to relief against total income of the current or previous tax year and against gains.

All the partners except Paul will be entitled to carry forward relief.

Chapter 9

Answer to Example 1

The mileage allowance of £3,600 (12,000 at 30p) received is tax free and Kerry will be entitled to a deduction of £1,400 computed as follows:

	£
Authorised rate	
10,000 miles at 45p	4,500
2,000 miles at 25p	500
	<u>5,000</u>
 Mileage allowance from employer (12,000 × 30p)	 (3,600)
Allowable deduction	<u>1,400</u>

Answer to Example 2

	£
Accommodation benefit - Annual Value	4,000
Less: Employee contribution for personal use	(500)
	<u>3,500</u>
Additional accommodation benefit $(120,000 - 75,000) \times 2.5\%$	1,125
Total assessable benefit	<u>4,625</u>

As the property had been owned by the employer for more than 6 years when Jones first occupied it and the property had cost more than £75,000 an expensive accommodation benefit will arise based on the market value when Jones first occupied.

Answer to Example 3**(a)** Gift of TV

	£
Market value when first made available to Gerald	900
Less: Benefit already assessed 2017/18 : $(900 \times 20\% \times 10/12)$	(150)
Taxable benefit on gift: 2018/19	<u>750</u>

The benefit is £750 since this is greater than the TV's market value when given to Gerald (£250)

(b) Sale of TV to Gerald for £250

	£
Benefit calculated in (a) above	750
Less: Price paid	(250)
Taxable benefit on gift: 2018/19	<u>500</u>

Notes :

1. Where the benefit for use is provided for only part of tax year the benefit is reduced proportionately.
2. Gerald would also have been taxed on the benefit of using the TV.
Taxed in 2017/18 – use £150
Taxed in 2018/19 – Gift 750 (a) or £500 (b)

Answer to Example 4**Lewis**

The CO₂ emissions are above 95g/km, so the relevant percentage is 29% (20% + 4%(diesel car) + 5% (1% for every complete 5g/km above 95g/km ie $120-95 = 25 / 5 = 5\%$). The motor car was only available for eight months of 2018/19, so the benefit is £2,610 ($13,500 \times 29\% \times 8/12$).

Nico

The CO₂ emissions are above the base level figure of 95 grams per kilometre. The CO₂ emissions figure of 177 is rounded down to 175 so that it is divisible by five. The base level percentage of 20% is increased in 1% steps for each complete 5 grams per kilometre above the base level, so the relevant percentage is 36% (20% + 16% ($175 - 95 = 80/5$)). The motor car was available throughout 2018/19 so the benefit is £5,904 ($16,400 \times 36\%$).

Fernando

The CO₂ emissions are above the base level figure of 95 grams per kilometre. The relevant percentage is 50% (20% + 30% ($245 - 95 = 150/5$)), but this is restricted to the maximum of 37%. The motor car was available throughout 2018/19 so the benefit is £7,162 ($22,600 \times 37\% = 8,362 - 1,200$). The contribution by Fernando towards the use of the motor car reduces the benefit.

Jenson

The CO₂ emissions are between 76 grams per kilometre and 94 grams per kilometre so the relevant percentage is 19% as it is a petrol car. The benefit is $£16,000 \times 19\% = £3,040$ for 2018/19.

Sebastian

The CO₂ emissions are between 51 grams to 75 grams per kilometre and the relevant percentage is 20% (16% + 4% (diesel car)). The benefit is $£11,000 \times 20\% = £2,200$ for 2018/19.

Answer to Example 5**Lewis**

$$£23,400 \times 29\% \times 8/12 = £4,524$$

The fuel was not available for first 4 months

Nico

$$£23,400 \times 36\% = £8,424$$

Fernando

$$£23,400 \times 37\% = £8,658$$

There is no reduction for the contribution made by Fernando since the cost of private fuel was not fully reimbursed.

Jenson

$$£23,400 \times 19\% = £4,446$$

Sebastian

$$£23,400 \times 20\% = £4,680$$

Answer to Example 6**(a)** Average method

		£
$\frac{35,000 + 15,000}{2} \times 2.5\%$		625
Less: interest paid (as below)		(258)
		367
6/4/2018 – 31/5/2018	$£35,000 \times 1\% \times \frac{2}{12}$	58
1/6/2018 – 30/11/2018	$£30,000 \times 1\% \times \frac{6}{12}$	150
1/12/2018 – 5/4/2019	$£15,000 \times 1\% \times \frac{4}{12}$	50
		258

(b) Accurate method

		£
6/4/2018 – 31/5/2018	$£35,000 \times 2.5\% \times \frac{2}{12}$	146
1/6/2018 – 30/11/2018	$£30,000 \times 2.5\% \times \frac{6}{12}$	375
1/12/2018 – 5/4/2019	$£15,000 \times 2.5\% \times \frac{4}{12}$	125
		646
Less: Interest paid (as above)		(258)
		388

HMRC would be entitled to opt for the accurate basis as this gives a higher assessment.

Answer to Example 7

	£
Personal Allowance	11,850
Benefits	(440)
Tax underpaid: $132 \times 100\%$	(660)
	10,750
Tax code	1075L

Chapter 10

Answer to Example 1

The total pension input allowed is made up as follows:

AA for 2018/19 (note 1)	40,000
Unused AA b/f	
- 2015/16 fully used	nil
- 2016/17 (40,000 – 30,000)	10,000
- 2017/18 (40,000 – 25,000)	15,000
Maximum gross contribution	<u>65,000</u>

note 1 Aston has adjusted income of £120,000 in 2018/19 which does not exceed £150,000 and therefore no tapering of the AA applies

It can be seen from the above working that the current year's AA is used first and then unused AA brought forward is used on a FIFO basis.

If therefore in 2018/19 Aston actually made a gross contribution of £45,000, this would be less than his relevant earnings for the year (£120,000) and would therefore qualify for relief and would utilise all of the 2018/19 AA of £40,000 and £5,000 of the £10,000 unused AA brought forward from 2016/17.

The remaining £5,000 would be carried forward for one more year to 2019/20. If a £30,000 gross contribution was then made this would be within the AA for 2019/20 so no unused AA brought forward would be utilised and £10,000 unused AA would be carried forward.

The £5,000 unused AA from 2016/17 would now lapse so that in 2020/21 after that year's AA is used there would be unused AA brought forward for use as follows:

- 2017/18	£15,000
- 2018/19	£NIL
- 2019/20 (40,000 – 30,000)	£10,000

Chapter 11

Answer to Example 1

The Class 1 and Class 1A NIC liability is as follows:

Class 1	£
Employee	
. ≤ £8,424 @ 0%	Nil
. [£46,350 – £8,424] × 12%	4,551
. [£50,000 – £46,350] × 2%	73
	<u>4,624</u>
Employer	
. ≤ £8,424 @ 0%	Nil
. [£50,000 – £8,424] × 13.8%	5,737
	<u>5,737</u>

Employment Allowance of £3,000 would be deductible from the total Employer Class 1 NIC liability of Riga Ltd

Class 1A

Employer 6,400 + 4,320 = 10,720 @ 13.8% = £1,479

Answer to Example 2

Class 4	£
(£46,350 – £8,424) × 9%	3,413
(£50,000 – £46,350) × 2%	73
	<u>3,486</u>
Class 2	
£2.95 × 52 weeks	£153

Chapter 12

Answer to Example 1

Tina – Capital Gains tax computation - 2018/19

Painting	£	£
Disposal proceeds	500,000	
Less Cost	<u>(350,000)</u>	
Capital Gain		150,000
Investment property		
Disposal proceeds	310,000	
Less incidental costs of disposal	<u>(15,000)</u>	
Net proceeds	295,000	
Less cost	<u>(200,000)</u>	
Capital Gain		95,000
Antique vase		
Disposal proceeds	10,000	
Less cost	<u>(15,000)</u>	
Capital loss		<u>(5,000)</u>
Net capital gains in 2018/19		240,000
Less capital losses b/f		<u>(12,000)</u>
Net Capital Gains		228,000
Less Annual Exempt Amount		<u>(11,700)</u>
Taxable Gains		216,300
CGT × 20% (Note)		£43,260
Due		31/1/2020

Note: Tina's taxable income of £50,000 exceeds the basic rate band of £34,500 and none of the assets sold are residential property nor assets eligible for entrepreneurs relief, so all of the taxable gain is taxed at 20%

Answer to Example 2

	£
Capital Gain	18,000
Less AEA	<u>(11,700)</u>
Taxable Gain	6,300
Capital Gains Tax (W1)	
6,300 × 10%	£630
Due	31/1/2020

Income Tax Computation

Trading profit	20,000
Less PA	<u>(11,850)</u>
Taxable income	8,150

Basic rate band remaining = 34,500 – 8,150 = £26,350.

The taxable gain of £6,300 therefore falls wholly into the remaining basic rate band so the CGT rate is 10% as the gain is not on residential property. If the taxable income of the taxpayer had been £29,500 then only £5,000 of the basic rate band would remain thus pushing £1,300 of the taxable gain into the higher rate band of 20%.