

Answer to Example 16

If Elton transfers a 5% (say) holding in his property to David, they will automatically be treated as jointly owning the property for tax purposes and each will be taxed on 50% of the income. Elton's tax liability will be reduced by £4,000 ($10,000 \times 40\%$) and David's liability will be computed as:

	£
Property income	10,000
Less: Personal Allowance	(12,570)
	nil
 Tax liability	 nil

This will save the couple £4,000

If Elton transferred the entire ownership then all the income would be assessed on David and his taxable income of £7,430 ($20,000 - 12,570$) would be taxed at 20% giving a tax liability of £1,486 compared to Elton's current tax liability on the property income of £8,000 ($20,000 \times 40\%$) achieving a total tax saving therefore of £6,514. The election to transfer £1,260 of the personal allowance from David to Elton would not be available here as Elton is not just a basic rate taxpayer.

Chapter 3**Answer to Example 1**

The cash basis has become the default setting for individuals and partnerships in assessing property income instead of the accruals basis.

If the rental income is received quarterly in advance then amounts would be received on 1 July and 1 October 2021 and 1 January and 1 April 2022 amounting to £6,000 - typically in an exam question you might be told however that the amount due on 1 April 2022 was not received until say 15 April 2022 and therefore only £4,500 would have been received in the 2021/22 tax year.

If the rent was received quarterly in arrears then amounts would be received on 30 September and 31 December 2021 and on 31 March 2022 amounting to £4,500 - again in an exam question you might be told that the amount due on 31 March 2022 was not received until 9 April 2022 and therefore only £3,000 would be received and assessed in 2021/22.

The £300 allowable expenses paid in November 2021 will be the only allowable deduction in 2021/22 as the repairs expenditure though incurred in 2021/22 was not paid until the 2022/23 tax year.

If therefor the rental income is received quarterly in advance the property income assessment will be £5,700 ($6,000 - 300$) whereas if the rental income is received quarterly in arrears the assessment will be £4,200 ($4,500 - 300$)

The Accruals basis

The rent assessable in each case is the rental income accrued for the period 1 July 2021 to 5 April 2022 irrespective of when the amounts were due to be received or were actually received. Expenses incurred in the same period are deductible irrespective of the date when paid.

	£	£
Rent due $\frac{1}{2} \times 6,000$		4,500
Expenses:		
Redecoration	300	
Repairs	500	
	800	
Property Income for 2021/22		3,700

Answer to Example 2

	£	£
Rent received $£800 \times 11$		8,800
Expenses		
Replacement furniture relief $(300 - 50)$	250	
Insurance paid	480	
Drain clearance	380	
		<u>(1,110)</u>
Property Income for 2021/22		<u>7,690</u>

The garage is an improvement, not a repair, and is therefore not deductible. The redecoration cost was paid in 2022/23. An equivalent replacement cooker would have cost £300 and proceeds of £50 were received on the sale of the old cooker.

Answer to Example 3

Property Income assessment	£
Rental income received	10,000
Less:	
Maintenance costs	<u>(800)</u>
Property Income	<u>9,200</u>
Income Tax Liability	
Employment Income	60,000
Property Income	<u>9,200</u>
Total Income	<u>69,200</u>
PA	<u>(12,570)</u>
Taxable Income	<u>56,630</u>
Income Tax	
Non savings	
$37,700 \times 20\% =$	7,540
$18,930 \times 40\% =$	<u>7,572</u>
	<u>15,112</u>
Less: Interest Relief	
$(6,000 \times 20\%) =$	<u>(1,200)</u>
Income Tax Liability	<u>13,912</u>

Note in this example no analysis columns of the income are used as all the income is non savings income.

Answer to Example 4**(a)** Ordinary calculation

Gross rent (12×650)	7,800
Less: expenses	<u>(1,200)</u>
Property Income	6,600

(b) Alternative calculation

Gross rent (12×650)	7,800
Less: Rent a Room Relief	<u>(7,500)</u>
Property Income	300

As gross rents exceed £7,500 Barbara must elect for the rent a room relief to apply if she wants it. Barbara should elect for the alternative treatment in 2021/22 by 31 January 2024.

Answer to Example 5

			£
Premium	$\frac{51 - 20}{50}$	$\times 60,000$	37,200
Rent received			<u>5,000</u>
Property Income			<u>42,200</u>

Alternatively the assessable premium may be computed as 60,000 less $(2\% \times (20-1)) = 37,200$

Answer to Example 6

$$\text{Relief available} = \frac{\pounds 37,200}{20} = \pounds 1,860 \text{ p.a.}$$

Chapter 4**Answer to Example 1**

Tax adjusted trading profit for the year ended 31 May 2021

	£	£
Net profit as per accounts		30,200
Add: Items debited in P&L – not allowed for tax purposes		
Depreciation	4,760	
Light and heat $(40\% \times \pounds 1,525)$	610	
Motor expenses $(9,000/12,000 \times \pounds 4,720)$	3,540	
Personal tax work	250	
Purchase of new shop	1,200	
Rent and rates $(40\% \times \pounds 3,900)$	1,560	
Decorating private flat	1,050	
Gift of food hampers	640	
Donation to national charity	100	
Excessive remuneration to Jeremy's wife $(\pounds 15,500 - \pounds 11,000)$	4,500	
Own consumption	<u>650</u>	
		<u>18,860</u>
Adjusted trading profit		49,060
Less: Capital allowances (given)		<u>(13,060)</u>
Tax adjusted trading profit		<u>36,000</u>

Chapter 5**Answer to Example 1**

Accounting Year Ended 5 April 2022

	£	Main Pool £	Allowances £
WDV b/f at 6 April 2021		1,250	
Additions Qualifying for AIA	10,000		
AIA	<u>(10,000)</u>	–	10,000
Disposals		<u>(500)</u>	
		750	
Small pool WDA		<u>(750)</u>	750
WDV c/f		–	<u>10,750</u>