

Paper TX-UK

ANSWERS TO EXAMPLES

Chapter 1

Answer to Example 1

- (a) Income Tax and NIC - both direct taxes
- (b) Corporation tax on profits and NIC in respect of employees - both direct taxes. Employees pay income tax and NIC on salary
- (c) Capital gains tax - direct tax
- (d) The business is charged VAT – indirect tax
- (e) Corporation tax (companies pay corporation tax on their chargeable gains) - direct tax
- (f) Inheritance tax - direct tax

Chapter 2

Answer to Example 1

Mr Smith Income tax computation 2018/19

	<i>Non-savings £</i>	<i>Total £</i>
Employment Income	50,850	50,850
Total income	50,850	50,850
Less: Personal Allowance	(11,850)	(11,850)
Taxable income	39,000	39,000
Tax calculation:		
Non Savings		
34,500 @ 20%		6,900
4,500 @ 40%		1,800
39,000		
Tax liability		8,700
Less: tax suffered at source (PAYE)		(8,000)
Tax payable		700

Answer to Example 2

Billy Income Tax Computation 2018/19

	<i>Non-savings income £</i>	<i>Savings income £</i>	<i>Total £</i>
Trading income	26,850		26,850
Bank Deposit interest		10,000	10,000
Total Income	26,850	10,000	36,850
Less: Personal Allowance	(11,850)		(11,850)
Taxable Income	15,000	10,000	25,000

Tax calculation:

Non Savings

15,000 @ 20% 3,000

Savings

1,000 @ 0% 0

9,000 @ 20% 1,800

Tax liability 4,800

Billy is a basic rate taxpayer, so his savings income nil rate band is £1,000. The 0% starting rate for savings income is not applicable as non savings taxable income (£15,000) exceeds £5,000

Answer to Example 3

Billy Income Tax Computation 2018/19

	<i>Non-savings income £</i>	<i>Savings income £</i>	<i>Total £</i>
Trading income	26,850		26,850
Bank Deposit interest		20,000	20,000
Total Income	26,850	20,000	46,850
Less: Personal Allowance	(11,850)		(11,850)
Taxable income	15,000	20,000	35,000

Tax calculation:

Non Savings

15,000 @ 20% 3,000

Savings

500 @ 0% 0

19,000 @ 20% 3,800

500 @ 40% 200

Tax liability 7,000

Billy is a higher rate taxpayer and therefore has a savings income nil rate band of £500. The savings income nil rate band of £500 counts towards the basic rate threshold of £34,500

The 0% starting rate for savings income is not applicable as non savings taxable income (£15,000) exceeds £5,000

Answer to Example 4

Molly Income Tax Computation 2018/19

	<i>Savings £</i>	<i>Total £</i>
Bank interest	20,850	20,850
Total Income	20,850	20,850
Less: Personal Allowance	(11,850)	(11,850)
Taxable income	9,000	9,000

Tax calculation:

Savings

5,000 @ 0% 0

1,000 @ 0% 0

3,000 @ 20% 600

Income Tax liability 600

As Molly has no non savings taxable income, the full £5,000 0% starting rate band is available on the taxing of the savings income

Molly is a basic rate taxpayer and therefore has a savings income nil rate band of £1,000

Answer to Example 5

Polly Income Tax Computation 2018/19

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Total</i> £
Trading income	12,500		12,500
Bank interest		18,000	18,000
Total Income	12,500	18,000	30,500
Less: Personal Allowance	(11,850)		(11,850)
Taxable income	650	18,000	18,650

Tax calculation

Non Savings

650 @ 20% =

130

Savings

(5,000 – 650 = 4,350 starting rate band)

4,350 @ 0%

0

1,000 @ 0%

0

12,650 @ 20%

2,530

Income tax liability

2,660

Polly has non savings taxable income of £650, so has a 0% starting rate band available for her savings income of £4,350

Polly is a basic rate taxpayer, so her savings income nil rate band is £1,000

Answer to Example 6

Daisy Income Tax Computation 2018/19

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Dividends</i> £	<i>Total</i> £
Employment Income	18,850			18,850
Bank deposit interest		10,000		10,000
Dividends			1,000	1,000
Total Income	18,850	10,000	1,000	29,850
Less: Personal Allowance	(11,850)			(11,850)
Taxable income	7,000	10,000	1,000	18,000

Tax calculation:

Non Savings

7,000 @ 20%

1,400

Savings

1,000 @ 0%

0

9,000 @ 20%

1,800

Dividends

1,000 @ 0% =

0

Income Tax liability

3,200

Less tax deducted @ source

PAYE

(1,400)

Income Tax Payable

1,800

Daisy has non savings taxable income in excess of £5,000, so the 0% starting rate for savings income is not applicable

Daisy is a basic rate taxpayer, so her savings income nil rate band is £1,000

Daisy has less than £2,000 of dividend income so the dividend income nil rate band applies to all the dividend income

Answer to Example 7

Daisy Income Tax Computation 2018/19

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Dividends</i> £	<i>Total</i> £
Employment Income	36,850			36,500
Bank interest		12,000		12,000
Dividends			1,000	1,000
Total Income	36,850	12,000	1,000	49,850
Personal Allowance	(11,850)			(11,850)
Taxable income	25,000	12,000	1,000	38,000

Tax calculation:

	£
Non savings	
25,000 @ 20%	5,000
Savings	
500 @ 0%	0
9,000 @ 20%	1,800
2,500 @ 40%	1,000
Dividends:	
1,000 @ 0%	0
Income Tax liability	7,800
Less: Tax suffered at source	
PAYE	(5,000)
Income Tax Payable	2,800

The starting rate for savings income is not applicable as non savings taxable income exceeds £5,000

Daisy is a higher rate taxpayer, so has a savings income nil rate band of £500.

Dividends received are less than £2,000 so the dividend income nil rate applies

Answer to Example 8

Mike Income Tax Computation 2018/19

	<i>Non-savings £</i>	<i>Total £</i>
Employment income	108,000	108,000
Total income	108,000	108,000
Less: Personal Allowance (W1)	(7,850)	(7,850)
Taxable Income	100,150	100,150

Income Tax calculation:

Non Savings	
34,500 @ 20%	6,900
<u>65,650 @ 40%</u>	26,260
100,150	
Income Tax Liability	33,160
Less: Tax deducted at source	
PAYE	(33,130)
Income tax Payable	30

(W1) Normal personal allowance	11,850
Less ½ [108,000 – 100,000]	(4,000)
Revised Personal Allowance	7,850

Answer to Example 9

Ken Income Tax Computation 2018/19

	<i>Non-savings £</i>	<i>Savings £</i>	<i>Dividends £</i>	<i>Total £</i>
Trading income	130,000			130,000
Bank interest		40,000		40,000
Dividends			36,000	36,000
Total Income	130,000	40,000	36,000	206,000
Less: Personal allowance (W1)	(–)			(–)
Taxable Income	130,000	40,000	36,000	206,000

Income Tax calculation:

Non Savings

34,500 @ 20%	6,900
<u>95,500 @ 40%</u>	<u>38,200</u>

Savings

20,000 @ 40%	8,000
20,000 @ 45%	<u>9,000</u>

Dividends

2,000 @ 0%	0
34,000 @ 38.1%	<u>12,954</u>

Income Tax Liability

75,054

Ken is an additional rate taxpayer so has no savings income nil rate band. As non savings taxable income exceeds £5,000 there is no 0% starting rate band to utilise.

The first £2,000 of dividend income benefits from the dividend income nil rate band irrespective of the level of other income

(W1) Normal personal allowance	11,850
Less ½ [206,000 – 100,000]	<u>(53,000)</u>
Restricted to	Nil

[Alternatively and recommended if answering a written question simply state that as adjusted net income > £123,700 the personal allowance is reduced to nil]

Answer to Example 10

James Income Tax Computation 2018/19

	<i>Non-savings £</i>	<i>Savings £</i>	<i>Total £</i>
Trading income	102,000		102,000
Bank interest		4,000	4,000
Total Income	102,000	4,000	106,000
Less: Personal allowance (W1)	(8,850)		(8,850)
Taxable income	93,150	4,000	97,150

Income Tax calculation:

Non Savings

34,500 @ 20%	6,900
<u>58,650 @ 40%</u>	<u>23,460</u>

Savings

500 @ 0%	0
3,500 @ 40%	<u>1,400</u>

Income Tax Liability

31,760

James is a higher rate taxpayer, so has a savings income nil rate band of £500. As his non savings taxable income exceeds £5,000 there is no 0% starting rate band available.

(W1) As adjusted net income exceeds £100,000, the normal personal allowance is restricted

Normal personal allowance	11,850
Less $\frac{1}{2}$ [106,000 – 100,000]	<u>(3,000)</u>
Revised personal allowance	8,850

Answer to Example 11

David Income Tax Computation 2018/19	£
Trading Profit	8,000
Revised PA (11,850 – 1,190)	(10,660)
Taxable Income	Nil

Victoria Income Tax Computation 2018/19	£
Employment Income	30,500
PA	<u>(11,850)</u>
Taxable Income	<u>18,650</u>

Tax Calculation	
Non Savings 18,650 @ 20%	3,730
PA tax reduction (1,190 x 20%)	<u>(238)</u>

Tax Liability	3,492
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The election must be made within 4 years of the end of the tax year ie by 5 April 2023

Answer to Example 12

Kathy Income Tax Computation 2018/19

	<i>Non-savings</i> £	<i>Total</i> £
Trading income	<u>50,000</u>	<u>50,000</u>
Total income	50,000	50,000
Less reliefs – Qualifying interest	<u>(1,000)</u>	<u>(1,000)</u>
Net Income	49,000	49,000
Less: Personal Allowance	<u>(11,850)</u>	<u>(11,850)</u>
Taxable Income	<u>37,150</u>	<u>37,150</u>

Tax calculation:

Non Savings	
34,500 @ 20% =	6,900
<u>2,650 @ 40% =</u>	<u>1,060</u>
37,150	
Income Tax Liability	<u>7,960</u>

Answer to Example 13

Elliot Income Tax Computation 2018/19

	<i>Non-savings £</i>	<i>Total £</i>
Trading income	49,000	49,000
Total Income	49,000	49,000
Less: Personal Allowance	(11,850)	(11,850)
Taxable income	37,150	37,150

Tax calculation

Non Savings

36,500 (W1) @ 20% 7,300

650 @ 40% 260

37,150

Income Tax Liability 7,560

(W1) $34,500 + (1,600 \times 100\%) = 36,500$ **Answer to Example 14**

Thomas Income Tax Computation 2018/19

	<i>Non-savings £</i>	<i>Total £</i>
Trading income	160,000	160,000
Total Income	160,000	160,000
Less: PA (note 1)	(–)	(–)
Taxable income	160,000	160,000

Income Tax Non savings

Non Savings

(W2) 42,500 @ 20% = 8,500

(W3) 115,500 @ 40% = 46,200

2,000 @ 45% = 900

160,000

Income Tax Liability 55,600

note 1 The PA is reduced to nil as the adjusted net income exceeds £123,700

(W1) Net Income	160,000
Less Gross gift aid payment ($6,400 \times 100\%$)	<u>(8,000)</u>
Adjusted Net income	152,000

(W2) $34,500 + (6,400 \times 100\%) = 42,500$ $150,000 + (6,400 \times 100\%) = 158,000$ (W3) $158,000 - 42,500 = 115,500$

Answer to Example 15

Kerry Income Tax Computation 2018/19

	<i>Non-savings</i> £	<i>Savings</i> £	<i>Dividends</i> £	<i>Total</i> £
Trading income	98,000			98,000
Bank interest		4,000		4,000
Dividends			6,000	6,000
Total Income	98,000	4,000	6,000	108,000
Less reliefs:				
Qualifying interest	(3,000)			(3,000)
Net Income	95,000	4,000	6,000	105,000
Less: PA (W1)	(11,850)			(11,850)
Taxable income	83,150	4,000	6,000	93,150
Income Tax				
Non Savings				
(W3) 40,500 @ 20%				8,100
42,650 @ 40%				17,060
Savings 500 @ 0%				0
3,500 @ 40%				1,400
Dividends 2,000 @ 0%				0
4,000 @ 32.5%				1,300
Income Tax Liability				27,860

Ken is a higher rate taxpayer so his savings income nil rate band is £500. As non savings taxable income exceeds £5,000 there is no 0% starting rate band to utilise

The first £2,000 of dividend income benefits from the 0% dividend rate irrespective of the level of other income. The remaining dividend income falls within the higher rate band and is taxed at 32.5%

(W1) As Adjusted Net Income does not exceed 100,000 (W2) the PA is not reduced

(W2) Net Income	105,000
Less Gross gift aid payment ($4,800 \times 100/80$)	(6,000)
Adjusted Net income	99,000

(W3) $34,500 + (4,800 \times 100/80) = 40,500$
 $150,000 + (4,800 \times 100/80) = 156,000$

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	(11,850)
	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 £8,150 ($20,000 - 11,850$) would be taxed at 20% giving a tax liability of £1,630 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

£6,370. The election to transfer £1,190 of the personal allowance from David to Elton would not be available here as Elton is not a basic rate taxpayer.

Chapter 3

Answer to Example 1

From 2018/19 the cash basis has become the default setting for individuals and partnerships in assessing property income.

If the rental income is received quarterly in advance then amounts would be received on 1 July and 1 October 2018 and 1 January and 1 April 2019 amounting to £6,000 - typically in an exam question you might be told however that the amount due on 1 April 2019 was not received until 15 April 2019 and therefore only £4,500 would have been received in the 2018/19 tax year.

If the rent was received quarterly in arrears then amounts would be received on 30 September and 31 December 2018 and on 31 March 2019 amounting to £4,500 - again in an exam question you might be told that the amount due on 31 March 2019 was not received until 9 April 2019 and therefore only £3,000 would be received and assessed in 2018/19.

The £300 allowable expenses paid in November 2018 will be the only allowable deduction in 2018/19 as the repairs expenditure though incurred in 2018/19 was not paid until the 2019/20 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 2018 to 5 April 2019 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	
		<u>800</u>
Property Income for 2018/19		<u>3,700</u>

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 2018/19		<u>7,690</u>

The garage is an improvement, not a repair, and is therefore not deductible. The redecoration cost was paid in 2019/20. 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
Mortgage Interest (6,000 x 50%)	(3,000)
Maintenance costs	(800)
Property Income	<u>6,200</u>
Income Tax Liability	
Employment Income	60,000
Property Income	<u>6,200</u>
Total Income	66,200
PA	<u>(11,850)</u>
Taxable Income	<u>54,350</u>

Income Tax	
Non savings	
34,500 x 20% =	6,900
19,850 x 40% =	<u>7,940</u>
	14,840
Less: Interest Relief	
3,000 (6,000 x 50%) x 20% =	<u>(600)</u>
Income Tax Liability	<u>14,240</u>

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

As Dora is a higher rate taxpayer she will incur an additional tax charge of £600 as a result of the change in tax treatment of the finance expense. The property income assessment is higher by £3,000 as a result of disallowing 50% of the mortgage interest, which increases the taxable income to be taxed at 40% by the same £3,000, thus increasing the tax charge by £1,200 which is then reduced by interest relief of only £600.

If Dora was only a basic rate taxpayer then her additional taxable income of £3,000 would only be taxed at the basic rate of 20%, increasing the tax charge by just £600 which would then be eliminated by the tax reduction of £600.

In 2020/21 when 0% of the £6,000 mortgage interest is an allowable expense and the whole amount is given as a tax reducer the income tax charge will increase by £2,400 (6,000 x 40%) for Dora as a higher rate taxpayer while the tax reducer will be only £1,200 (6,000 x 20%) thus an increase in tax liability overall of £1,200!

Answer to Example 4

(a) Ordinary calculation

Gross rent (12 x 650)	7,800
Less: expenses	(1,200)

Property Income	6,600
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(b) Alternative calculation

Gross rent (12 x 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 2018/19 by 31 January 2021.

Answer to Example 5

		£
Premium	$\frac{51 - 20}{50} \times 60,000$	37,200
Rent		<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 2018

	£	£
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 2019

	£	Main Pool £	Allowances £
WDV b/f at 6 April 2018		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>

Answer to Example 2

Accounting Year ended 31 December 2018

	<i>£</i>	<i>Main Pool £</i>	<i>70% Business use car (1) £</i>	<i>70% Business use car (2) £</i>	<i>Allowances £</i>
WDV b/f at 1 January 2018		21,200	13,600		
Additions Qualifying for AIA					
Plant	6,600				
AIA	(6,600)				6,600
Other additions					
Motor car (CO ₂ 100g/km)		10,600			
Motor car (CO ₂ 180g/km)				16,000	
Disposal			(9,400)		
		<u>31,800</u>	<u>4,200</u>	<u>16,000</u>	
WDA @ 18%		(5,724)			5,724
Balancing allowance			(4,200) × 70%		2,940
WDA @ 8%				(1,280) × 70%	896
					<u>16,160</u>
WDV c/f		<u>26,076</u>	<u>–</u>	<u>14,720</u>	

Answer to Example 3

Accounting period to 31 March 2019

	<i>£</i>	<i>Main Pool £</i>	<i>Short life Asset £</i>	<i>Allowances £</i>
WDV b/f		16,000		
Additions qualifying for AIA				
Machinery	220,000			
Photocopier	<u>4,000</u>			
	224,000			
AIA (Maximum)	(200,000)			200,000
		<u>20,000</u>	<u>4,000</u>	
		36,000	4,000	
WDA @ 18%		(6,480)		6,480
WDA @ 18%			(720)	720
				<u>207,200</u>
WDV c/f		<u>29,520</u>	<u>3,280</u>	

Accounting period to 31 March 2020

	<i>£</i>	<i>Main Pool £</i>	<i>Short life Asset £</i>	<i>Allowances £</i>
WDV b/f		29,520	3,280	
Disposal			(1,500)	
		<u>29,520</u>	<u>1,780</u>	
WDA @ 18%		(5,314)		5,314
Balancing allowance			(1,780)	1,780
				<u>7,094</u>
WDV c/f		<u>24,206</u>	<u>–</u>	

Answer to Example 4

Year ended 31 December 2018

	<i>Main Pool</i>	<i>Allowances</i>
	£	£
WDV b/f at 1 January 2018	4,000	
Addition – 1 October 2018	2,000	
	<u>6,000</u>	
Less Disposal 10 April 2018	(8,600)	
	<u>(2,600)</u>	
Balancing charge	2,600	(2,600)

Answer to Example 5

Accounting Period ended 31 March 2019

	<i>Main Pool</i>	<i>Allowances</i>
	£	£
WDV b/ at 1 January 2019	12,000	
Addition – 1 February 2019	4,000	
	<u>16,000</u>	
Less Disposals – 31 March 2019	(5,000)	
	<u>11,000</u>	
Balancing allowance	(11,000)	11,000
	–	

Answer to Example 6

Accounting period to 31 March 2019

	<i>Main Pool</i>	<i>Special rate pool</i>	<i>80% Business use car</i>	<i>Allowances</i>
	£	£	£	£
WDV b/f		30,000	14,000	
Additions Qualifying for AIA (Special Rate)				
Thermal insulation for business building	28,000			
AIA	<u>(28,000)</u>			28,000
		–		
Additions Qualifying for AIA (Main)				
Computer	60,000			
Machine	84,000			
Plant	60,000			
	<u>204,000</u>			
AIA (200,000 – 28,000)	<u>(172,000)</u>			172,000
		32,000		
Other additions				
Motor car (51 -110g/km)		11,200		
Disposals			(8,000)	
		<u>73,200</u>	<u>6,000</u>	
WDA @ 18%		(13,176)		13,176
Balancing allowance			(6,000)	4,800
			× 80%	
Additions Qualifying for FYA				
Motor car (≤ 50g/km)	17,000			
FYA @ 100%	<u>(17,000)</u>			17,000
				<u>234,976</u>
WDV c/f	60,024	–	–	

Chapter 6

Answer to Example 1

- (a) 2016/17
- (b) 2017/18
- (c) 2017/18

Answer to Example 2

			£
2014/15	Actual (1/01/2015 – 5/04/2015)	$\frac{3}{6} \times 30,000$	15,000
2015/16	First 12 months (1/01/2015 – 31/12/2015)		
	1/01/2015 – 30/06/2015	30,000	
	1/07/2015 – 31/12/2015	$\frac{6}{12} \times 70,000$	<u>35,000</u>
2016/17	CYB (year to 30/06/2016)		70,000
2017/18	CYB (year to 30/06/2017)		82,000
Overlap profits:	1/01/2015 – 5/04/2015	15,000	
	1/07/2015 – 31/12/2015	<u>35,000</u>	50,000

Answer to Example 3

			£
2016/17	Actual (1/05/2016 – 5/04/2017)	$1\frac{1}{18} \times 36,000$	22,000
2017/18	12 months to 31/10/2017	$1\frac{2}{18} \times 36,000$	24,000
2018/19	CYB (y/e 31/10/2018)		30,000
Overlap profits	1/11/2016 – 5/04/2017	$\frac{5}{18} \times 36,000$	10,000

Answer to Example 4

2016/17	Actual (1/12/2016 - 5/04/2017)	$\frac{4}{18} \times 54,000$	12,000
2017/18	Actual (6/04/2017 - 5/04/2018)	$\frac{12}{18} \times 54,000$	36,000
2018/19	12 months to 31/05/2018 (1/06/2017 - 31/05/2018)	$\frac{12}{18} \times 54,000$	36,000
2019/20	CYB (y/e 31/05/2019)		48,000
Overlap profit	1/06/2017 - 5/04/2018	$\frac{10}{18} \times 54,000$	30,000

The overlap profit will be deducted in computing the assessment for the final tax year of assessment when John ceases to trade

Answer to Example 5

		£
2017/18	CYB (y/e 31/01/2018)	47,000
2018/19	4 months: 1/02/2018 – 31/05/2018	8,000
	Less: overlap relief	<u>(6,000)</u>
		2,000

Boris ceased trading on 31 May 2018, thus making the final tax year 2018/19 and making the penultimate tax year 2017/18 which using CYB assesses the year ended 31 January 2018. The assessment for the final tax year 2018/19 is then made of the remaining period of profit less the overlap relief.

Answer to Example 6

Income tax computation 2018/19

	<i>Non savings</i>
Employment Income (3/12 x 40,000)	10,000
Trading Profit (W1)	54,463
Total Income	64,463
Personal allowance	(11,850)
Taxable income	52,613
Tax calculation:	
34,500 @ 20%	6,900
18,113 @ 40 %	7,245
52,613	
Income Tax Liability	14,145

As Wendy started to trade on 1 July 2018 the first tax year of assessment is 2018/19,
 2018/19 (Actual) (1/07/2018 - 5/04/2019)
 = 54,463

(W1) Adjusted profit	89,000
Less capital allowance (W2)	(34,537)
Trading income	54,463

(W2)

	<i>£</i>	<i>£</i>	<i>60% Business use Allowances asset (1) £</i>	<i>£</i>
Accounting Period to 5 April 2019		—		
Additions qualifying for AIA (max 9/12 x 200,000)				
Recording equipment	30,000			
Computer	2,600			32,600
Other Additions				
Motor car (51-110g/km)		10,400		
Motor car (>110g/km)		10,400	14,800	
		(1,404)	14,800	
WDA × 18% × 9/12			(888)	1,404
WDA × 8% × 9/12			× 60%	533
				34,537
WDV c/f		8,996	13,912	

Answer to Example 7

	£
Revenues	61,000
Cost of sales (29,000 – 1,800)	(27,200)
	<u>33,800</u>
Motor expenses (3,600 x 60%)	(2,160)
Capital allowances (8,000 + (12,000 x 18% x 60%))	(9,296)
Adjusted Trading Profit	<u>22,344</u>

Cash Basis

Receipts (61,000 – 4,000)	57,000
Payments	
Purchases & Expenses (29,000 – 2,000)	27,000
Equipment	8,000
Motor expenses (10,000 x 60% x 45p)	<u>2,700</u>
Adjusted Trading Profit	<u>(37,700)</u>
	<u>19,300</u>

Answer to Example 8

Eve may either establish an agreed split between business and private use and add back the private use proportion or simply use the flat rate private use adjustment and add back £4,200, giving an adjusted trading profit figure of £27,200 (23,000 + 4,200).

If a question is set using the cash basis it should be assumed that the election to use the relevant flat rate scheme has been made.

Although the flat rate scheme applies to unincorporated businesses generally it will only be examined within the cash basis.

If the cash basis is to be used in the examination it will be specifically mentioned and should only be used therefore if specifically required.

Chapter 7

Answer to Example 1

	2017/18	2018/19	2019/20
	£	£	£
Trading income	nil	3,000	10,000
Less: carry forward relief	<u>nil</u>	<u>(3,000)</u>	<u>(2,000)</u>
Revised trading income	<u>nil</u>	<u>nil</u>	<u>8,000</u>
Working – loss memorandum	£		
Trading loss	5,000		
Less: carry forward relief in 2018/19	<u>(3,000)</u>		
	<u>2,000</u>		
Less: carry forward relief in 2019/20	<u>(2,000)</u>		
Loss carried forward to 2020/21	<u>nil</u>		

Note

The loss is set off against the first trading profits to arise, to the maximum extent possible. Thus £3,000 of the loss is set off in 2018/19 and the remainder carried forward to 2019/20.

Answer to Example 2

Trading profit assessments: £

2017/18

Year ended 31 December 2017 32,000

2018/19

Year ended 31 December 2018 25,000

2019/20

Year ended 31 December 2019 NIL

Income tax computations

	2017/18	2018/19	2019/20
	£	£	£
Trading profit	32,000	25,000	Nil
Property income	6,000	6,000	6,000
Total income	38,000	31,000	6,000
Less reliefs			
Loss relief against total income		(31,000)	(–)
Net income	38,000	–	6,000
PA	(11,850)	(11,850)	(11,850)
Taxable income	26,150	–	–

- A claim against total income in 2019/20 would waste the personal allowance for 2019/20 and save no income tax, hence no claim is made in current tax year. The claim in 2019/20 will also waste the PA but will generate a repayment of tax of 20% on what would otherwise have been a taxable income of £19,150 (31,000 – 11,850).
- The balance of the trading loss £53,000 (£84,000 – £31,000) will then be carried forward against the first available future trading profits that arise from the same trade.
- As the total non trading income for the tax year 2018/19 (6,000) is less than £50,000 the cap on the income tax loss relief is not relevant (explained in section 4 part (c) of this chapter).

Answer to Example 3

Provided an election is made, the whole of the trading loss remaining after the claim against total income has been made will be available to be offset against the net gains of 2018/19. The entire £24,000 of loss is available for set off against the net gains as it is less than the maximum loss of £40,000, computed as net gains less capital losses brought forward (44,000 – 4,000). The loss of £24,000 is then applied against the net gains of the tax year before the deduction of any capital loss b/f and before the deduction of the annual exempt amount

	£
Capital gains	44,000
Loss relief	(24,000)
	20,000
Less: Capital loss b/f	(4,000)
Annual Exempt Amount (see chapter 12)	(11,700)
Taxable gain for 2018/19	4,300

Answer to Example 4

Trading income assessable amounts:

	<i>Assessment</i>	<i>Loss</i>
2017/18 (Actual basis)		
1/08/2017 – 5/04/2018 ($\frac{8}{10} \times (20,000)$)	Nil	(£16,000)
2018/19 (First 12 months)		
1/08/2017 – 31/07/2018		
Loss to 31/05/2018	(20,000)	
Less: Used in 2017/18	16,000	
	(4,000)	
Profits $2/12 \times 48,000$	8,000	
	4,000	
2019/20 (CYB)		
A/C year ended 31/05/2019	48,000	

When calculating the amount assessable for 2018/19, the loss already taken into account in 2017/18 must be deducted. The loss of £4,000 allocated to 2018/19 is then used in aggregation against the profit of £8,000 creating a net assessment of £4,000. No further relief is therefore available for this part of the loss. The taxpayer would then need to choose his preferred use of the £16,000 loss in respect of 2017/18. A loss may only be relieved once hence there is no concept of “overlap loss”.

As a profit of £8,000 ($2/12 \times 48,000$) has been included in computing the assessments in both 2018/19 and 2019/20 this will represent an overlap profit that will reduce the assessment of the taxpayer in their final tax year of assessment.

Answer to Example 5

Taxable income computations

	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Employment Income	12,800	11,050	5,868			
Trading profit (W1)				Nil	Nil	2,500
Other income	4,500	4,500	4,500	4,500	4,500	4,500
Total income	17,300	15,550	10,368	4,500	4,500	7,000
Less: Opening years relief	(9,000)	(3,000)	–	–	–	–
Net Income	8,300	12,550	10,368	4,500	4,500	7,000
Less: Personal Allowances	(11,850)	(11,850)	(11,850)	(11,850)	(11,850)	(11,850)
Taxable income	Nil	700	Nil	Nil	Nil	Nil

Under opening years loss relief the loss of 2017/18 (£9,000) is set initially against Total Income of 2014/15. Any loss remaining would then be set automatically against Total Income of 2015/16 and finally against Total Income of 2016/17. In this example there is clearly sufficient income in 2014/15 to absorb all the available loss of 2017/18. It does however result in some wastage of the personal allowance for 2014/15. The loss of 2018/19 (£3,000) is then set against Total Income of 2015/16 (before relieving 2016/17 and 2017/18 had any loss remained).

Workings

(W1) New business – assessments

	<i>Assessment</i>	<i>Loss</i>
2017/18 (Actual) 1/7/2017 – 5/4/2018	Nil	
$\frac{1}{2} \times (12,000)$		(9,000)
2018/19 (CYB) y/e 30/6/2018	Nil	(12,000)
Less: used in 2017/18		9,000
		(3,000)
2019/20 (y/e 30/6/2019)	2,500	
Loss available for relief		
2017/18	(9,000)	
2018/19	(3,000)	

Answer to Example 6

Trading loss arising in final 12m of trading available for terminal loss relief is calculated as

2019/20

6/4/2019 – 31/5/2019

$\frac{3}{10} \times (20,000)$ (4,000)

Overlap Relief (5,000)

2018/19

1/6/2018 – 5/4/2019

$\frac{3}{12} \times 6,000$ 1,000

+ $\frac{8}{10} \times (20,000)$ (16,000) (15,000)

Trading Loss available under terminal loss relief (24,000)

The loss of £24,000 would then be set off against the trading profits of firstly 2018/19 of £6,000 leaving the remaining £18,000 to be used against the £28,000 trading profit assessment of 2017/18

Chapter 8**Answer to Example 1**

	<i>Total</i> £	<i>Doug</i> £	<i>Rob</i> £
A/C Year Ended 30/9/2017	<u>18,000</u>		
1/10/2016 to 30/6/2017			
(Profits £18,000 × $\frac{1}{2}$ = 13,500)			
Salaries ($\frac{1}{2}$)	3,750	2,250	1,500
Balance (3:2)	<u>9,750</u>	<u>5,850</u>	<u>3,900</u>
	<u>13,500</u>	<u>8,100</u>	<u>5,400</u>
1/7/2017 to 30/9/2017			
(Profits £18,000 × $\frac{3}{12}$ = 4,500)			
Salaries ($\frac{3}{12}$)	2,500	1,500	1,000
Balance (2:1)	<u>2,000</u>	<u>1,333</u>	<u>667</u>
	<u>4,500</u>	<u>2,833</u>	<u>1,667</u>
Total allocation	<u>18,000</u>	<u>10,933</u>	<u>7,067</u>

Each partner will then be assessed on their share of the profit in 2017/18, as the partners are continuing the trade the normal CYB assessment will apply.

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)	 <u>(3,600)</u>
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 :

- Where the benefit for use is provided for only part of tax year the benefit is reduced proportionately.
- 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%.

Answer to Example 3

	£
Capital Gain	30,000
Less AEA	(11,700)
Taxable Gain	18,300
Capital Gains Tax (W1)	
5,350 × 10%	535
<u>12,950 × 20%</u>	<u>2,590</u>
18,300	£3,125
CGT Due	31/1/2020

Income Tax Computation

Trading profit	41,000
Less Personal allowance	(11,850)
Taxable income	29,150

Basic rate band remaining.

$34,500 - 29,150 = £5,350$.

Part of the taxable gain (£5,350) falls within the remaining basic rate band so will be taxed at 10%, but (£18,300 – £5,350) £12,950 exceeds the basic rate band so will be taxed at 20%.

Answer to Example 4

	£
Capital Gain	26,000
Less AEA	(11,700)
Taxable Gain	14,300
Capital Gains Tax (W1)	
4,350 × 10%	435
<u>9,950 × 20%</u>	<u>1,990</u>
14,300	£2,425
CGT Due	31/1/2020

W1 Income Tax Computation

Trading profit	45,000
Less Personal allowance	(11,850)
Taxable income	33,150

Basic rate band remaining $£37,500 - £33,150 = £4,350$

Part of the taxable gain (£4,350) falls into the remaining basic rate band so will be taxed at 10%, but (£14,300 – £4,350) £9,950 exceeds the basic rate band so will be taxed at 20%.

The basic rate band is extended by the gross gift aid payment: $(£34,500 + 2,400 \times \frac{100}{80}) = 37,500$.

Answer to Example 5

	<i>Property</i>	<i>Ring</i>	
	£	£	
Gains	30,000	8,000	
AEA (note 1)	(11,700)		
Taxable Gains	<u>18,300</u>	<u>8,000</u>	
CGT (note 2)			
18,300 x 18% =	3,294		
6,550 x 10% =		655	
1,450 x 20% =		290	
	<u>3,294</u>	<u>945</u>	<u>4,239</u>

Note 1

The AEA is deducted firstly from the gain on the residential property as it would be subject to CGT rates of 18% and 28% whereas the gain on the diamond ring would only be subject to rates of 10% and 20%

Note 2

Taxable income of Gaynor is (21,500 – 11,850) £9,650 leaving an unused basic rate band of £24,850 (34,500 – 9,650). As the gain of £18,300 on the residential property falls entirely within the remaining basic rate band of £24,850 it will all be taxed at 18%.

This will leave (24,850 – 18,300) £6,550 remaining basic rate band to apply against the gain on the diamond ring.

Once you have correctly deducted any capital losses and the AEA from those gains suffering CGT at the highest rates and computed the resulting taxable gains, it will not then matter whether as above you firstly tax the gain on the residential property or whether you firstly tax the gain on the diamond ring as the difference between the lower and higher rates is in both cases the same, 10%:

8,000 x 10% =		800	
16,850 x 18% =	3,033		
1,450 x 28% =	<u>406</u>		
	<u>3,439</u>	<u>800</u>	<u>4,239</u>

Answer to Example 6

$$(\pounds4.00 + \pounds4.08) / 2 = \pounds4.04\text{p}$$

$$\text{Value } 1,000 \times \pounds4.04\text{p} = \pounds4,040.$$

Answer to Example 7

Fiona

£

2017/18

Capital gains in the tax year	15,000
Capital losses in the tax year	<u>(10,000)</u>
Net Capital gains in the tax year	5,000

Net Capital gains are covered by the AEA. No losses to carry forward to 2018/19.

2018/19

Capital gains in the tax year	17,000
Capital losses in the tax year	<u>(5,200)</u>
Net Capital gains in the tax year	11,800
AEA	<u>(11,700)</u>
Taxable gains	<u>100</u>

Fiona is taxed on taxable gains of £100 in 2018/19. No losses to carry forward.

Jane

2017/18

Capital gains in the tax year	7,000
Capital losses in the tax year	<u>(10,000)</u>
Net Capital Gains in the tax year	Nil

Jane is unable to use her 2017/18 AEA since her gains are covered by current year losses. She has net losses of £3,000 (10,000 - 7,000) to carry forward to 2018/19.

2018/19

Capital gains in the tax year	14,000
Capital losses in the tax year	<u>(2,000)</u>
Net Capital Gains in the tax year	12,000
Less capital loss b/f (restricted)	<u>(300)</u>
Net Capital Gains	11,700
Less AEA	<u>(11,700)</u>
Taxable Gain	<u>nil</u>

The capital loss b/f is used so as to only reduce the net gains of the year down to the level of the AEA. Capital loss to carry forward is then $3,000 - 300 = £2,700$.

Answer to Example 8

Gollum transfers the ring at no gain / no loss in December 2018 which will be at the cost to Gollum of £12,000

Frodo sells the ring

	£
Disposal Proceeds	20,000
Less Cost	(12,000)
Capital gain	8,000

Frodo simply takes on the original cost of the asset from Gollum in now computing his gain on sale.

Answer to Example 9

		£
Proceeds		16,000
Less Acquisition cost	$26,000 \times \frac{16,000}{16,000 + 34,000}$	(8,320)
Chargeable gain		7,680

Answer to Example 10

(a) Antique table – this is an exempt asset as cost and proceeds are both $\leq$ £6,000 and it is a non wasting chattel.

(b) Painting – non wasting chattel
Normal calculation

	£
Disposal proceeds	10,000
Cost	(2,000)
Chargeable gain	8,000

Restricted to $\frac{5}{3}$ [10,000 – 6,000] = **£6,667**

(c) Antique vase – non wasting chattel

	£
Disposal proceeds (deemed)	6,000
Less cost	(8,000)
Capital loss	(2,000)

(d) The vintage car is exempt

	£
Asset (1)	–
Asset (2)	6,667
Asset (3)	(2,000)
Asset (4)	–
Net chargeable Gain	4,667

Answer to Example 11

	£	£
Proceeds		38,000
Less Acquisition cost		
Purchase	25,000	
Less $12/30 \times [25,000 - 1,000]$	(9,600)	
		<u>(15,400)</u>
Chargeable gain		22,600

Chapter 13

Answer to Example 1

(a)	Match with acquisitions on same day as sale	none
(b)	Match with acquisitions in next 30 days	
	7 March 2019	200 shares
		£
	Disposal proceeds ($200/1,000 \times £25,000$)	5,000
	Less: cost	<u>(4,000)</u>
	Capital gain	1,000
(c)	Match with share pool - remaining 800 shares	
		<i>Number</i> <i>Cost</i>
	31 May 2015	1,500 20,000
	30 June 2016	<u>500 10,000</u>
		2,000 30,000
	Disposal	<u>(800) (12,000)</u>
		1,200 18,000
		£
	Calculate Gain	
	Disposal proceeds ($800/1,000 \times £25,000$)	20,000
	Less: cost	<u>(12,000)</u>
	Capital gain	8,000
	Capital Gains	9,000

Answer to Example 2

- (a) Match with acquisitions on same day none
 (b) Match with acquisitions in next 30 days none
 (c) Match with share pool

	<i>Number</i>	<i>Cost</i>
Feb 2016	7,000	15,000
June 2016	<u>1,000</u>	<u>4,000</u>
	8,000	19,000
July 2016 Bonus 1:5	<u>1,600</u>	<u>–</u>
	9,600	19,000
October 2018 Disposal	<u>(5,000)</u>	<u>(9,896)</u>
	4,600	9,104

Calculate Gain

	<i>£</i>
Disposal proceeds	20,000
Less: cost	<u>(9,896)</u>
Capital gain	10,104

Answer to Example 3

- (a) Match with acquisitions on same day none
 (b) Match with acquisitions in next 30 days none
 (c) Match with share pool

	<i>Number</i>	<i>Cost</i>
Feb 2016	6,000	15,000
June 2016	<u>900</u>	<u>2,700</u>
	6,900	17,700
July 2016 Rights 1: 3 @ £3.00	<u>2,300</u>	<u>6,900</u>
	9,200	24,600
September 2018 Disposal	<u>(6,000)</u>	<u>(16,043)</u>
	3,200	8,557

Calculate Gain

	<i>£</i>
Disposal proceeds	24,000
Less: cost	<u>(16,043)</u>
Capital gain	7,957

Answer to Example 4

Disposal proceeds	35,000
Less Cost (W 1)	<u>(10,000)</u>
Capital gain	<u>25,000</u>

Working 1:

Cost of ordinary shares in Gold Ltd

As Mark received both ordinary and preference shares in Gold the cost of his shares in Silver (£12,000) is divided between his new shareholdings in Gold according to the market values of the shares received Mark received:

8,000 ordinary shares, valued at £5 =	40,000
4,000 preference shares, valued at £2 =	<u>8,000</u>
Total	<u>48,000</u>

The cost attributable to the ordinary shares is therefore: £12,000 x $\frac{40,000}{48,000}$ = £10,000

Answer to Example 5

Mark receives at takeover:

	<i>Market value</i>	<i>Cost</i>
8,000 Gold Ltd ordinary shares	£40,000	£10,000
Cash	<u>£8,000</u>	<u>£2,000</u>
Total	<u>£48,000</u>	<u>£12,000</u>

The original Silver Ltd share cost of £12,000 is divided between the shares and cash received from Gold Ltd proportionate to the value received. As cash has now been received at the time of the takeover an immediate gain arises.

Capital gain in June 2017:

(Computed from working above)

	<i>£</i>
Proceeds (cash received)	8,000
Less Cost	<u>(2,000)</u>
Capital gain	<u>6,000</u>

Chapter 14

Answer to Example 1

Daisy

Sale of business

	£
Goodwill	250,000
Factory	320,000
Warehouse	(90,000)
	<u>480,000</u>

Sale of shares

Gain on shares	<u>370,000</u>
Net chargeable gains	850,000
Less AEA	<u>(11,700)</u>
Taxable gain	838,300
Capital Gains Tax $£838,300 \times 10\%$	<u>£83,830</u>
Due	31/1/2020

Entrepreneurs' relief is available on both disposals, the sale of the business and the sale of the shares where Daisy had owned at least 5% of the shares and been an employee for a period of at least 12 months

Daisy has utilised £850,000 (£480,000 + £370,000) of entrepreneurs' relief in 2018/19 so has (£10,000,000 – £850,000) = £9,150,000 to utilise over the rest of her lifetime.

Answer to Example 2

Anne

Capital Gains Calculation

	£	£
Capital gains qualifying for entrepreneurs' relief		
Sale of shares		
Proceeds	5,000,000	
Cost	<u>(500,000)</u>	
Capital gains / taxable gain	4,500,000	
Capital gains not qualifying for entrepreneurs' relief		
Sale of painting		100,000
Less capital loss brought forward (note 1)		<u>(25,000)</u>
		75,000
Less AEA		<u>(11,700)</u>
Taxable gain		<u>63,300</u>
Capital Gains Tax @ 10% / 20% (W1)	£450,000	£12,660
Due date	31/1/2020	31/1/2020
(W1)		£
£4,500,000 × 10%		450,000
£63,300 × 20% (Note 2)		<u>12,660</u>
Capital Gains Tax		462,660

Note 1

The capital loss and the AEA are applied against the gain on the sale of the painting as it will be taxed at a higher tax rate than the gain on the share disposal which is eligible for entrepreneurs relief. Entrepreneurs' relief (ER) is available as Anne has held at least 5% of the shares and been an employee for the last 12 months

Although £16,500 (£34,500 – £18,000) of Anne's basic rate band is unused, this is deemed to be utilised by the gains qualifying for ER (even though the 10% ER tax rate was applicable to that gain) and therefore pushes all of the taxable gain on the painting into the 20% band

There is a lifetime allowance of £5,500,000 (£10,000,000 – £4,500,000) remaining to utilise on future gains qualifying for ER.

Answer to Example 3

	£
Cost of new asset	320,000
Less: Capital gain on old asset (£300,000 - £250,000)	(50,000)
Deemed cost of new asset	<u>270,000</u>

As all the sale proceeds have been reinvested in a new qualifying business asset within 12 months before to 3 years after the disposal date, the entire gain is eligible for rollover relief. If rollover relief was not claimed note that entrepreneurs' relief would not be available as this is the disposal of an individual asset used in the business, not the disposal of the business itself.

Answer to Example 4

- (a) New factory purchased for £750,000

	£	£
Purchase cost of new factory		750,000
Capital gain on old factory (£800,000 - £680,000)	120,000	
Restriction on rollover (£800,000 - £750,000)	<u>(50,000)</u>	
Gain rolled over		<u>(70,000)</u>
Base cost of new factory		<u>680,000</u>

As £50,000 of the sale proceeds has not been reinvested this amount of the gain remains chargeable. Entrepreneurs' relief is not available in respect of the gain of £50,000 that is immediately chargeable as it is not the disposal of the business itself but simply an asset used in that business. If however, a further £50,000 were to be reinvested in other qualifying business assets by August 2021 (3 years from disposal date) a further rollover relief claim could be made to defer the remaining gain

- (b) New factory purchased for £600,000

In this case the amount of proceeds not reinvested of £200,000 (£800,000 - £600,000) exceeds the gain made on the old factory. Thus none of the gain is eligible to be rolled over and so there is no adjustment to the base cost of the new factory. It remains at the purchase price of £600,000. Entrepreneurs' relief would not be available against the gain of £120,000 in 2018/19 as it is not the disposal of the business.

If however further reinvestment in qualifying assets within the relevant time period (by August 2021) is made then claims for rollover relief may then be available. For this to happen the further reinvestment must be in excess of £80,000 and full rollover would be achieved if the additional reinvestment amounted to at least £200,000

Answer to Example 5

- (a) The non-qualifying part of the gain is:

£9,000 (£600,000 - £540,000 = £60,000 × 15%).

This is taxable immediately, as it does not qualify for rollover relief. Entrepreneurs' relief will not be available as it is not the sale of the business.

- (b) As all the business proportion of the sale proceeds has been reinvested in a business asset the business proportion of the gain (85%) may be rolled over in full. The base cost of the new factory is reduced by the amount of the gain rolled over. It is therefore:

	£
Purchase cost	650,000
Capital gain rolled over (£60,000 × 85%)	<u>(51,000)</u>
	<u>599,000</u>

Answer to Example 6

As Charles reinvested all of the proceeds from the sale of the freehold factory in a 55 year leasehold factory, a depreciating asset, the entire gain may be held over. The held over gain on the sale of the factory in June 2019 becomes chargeable in 2020/21, as the depreciating asset has been sold in February 2021. The capital gain is £200,000 (£500,000 - £300,000). A further gain of £40,000 (640,000 - 600,000) arises on the sale of the leasehold factory. Entrepreneurs' relief is not available as Charles did not dispose of the whole business.

Answer to Example 7

David has made a disposal in September 2019 as follows:

	£
Market value of asset	100,000
Less: Cost	(60,000)
	<u>40,000</u>
Less: Gift relief	(40,000)
Revised gain	<u>Nil</u>

Tommy has a deemed base cost to set against a future disposal, calculated as follows.

	£
Market value of asset acquired	100,000
Less: gain deferred	(40,000)
	<u>60,000</u>

Answer to Example 8

(a) Richard – Chargeable gain on shares sold at undervalue in March 2019

	£	£
Market value of shares in March 2019		200,000
Less cost		(60,000)
Capital Gain		<u>140,000</u>
Less: Gain deferred		
Capital gain	140,000	
Less: Proceeds received – actual cost (85,000 – 60,000)	(25,000)	
		<u>(115,000)</u>
Revised gain eligible for entrepreneurs' relief		25,000
Less AEA		(11,700)
Taxable gain		<u>13,300</u>
CGT @ 10%		<u>£1,330</u>

(b) Richard's son – Base cost

	£
Market value of shares in March 2019	200,000
Less: Gain deferred	(115,000)
Base cost	<u>85,000</u>

Answer to Example 9

	£
John's Proceeds (market value)	800,000
Less: cost	(200,000)
Capital Gain	600,000
Less gift relief (W1)	(525,000)
Revised gain eligible for entrepreneur's relief	75,000
Less AEA	(11,700)
Taxable gain	63,300
CGT @ 10%	£6,330

John's son Base cost of shares	
Cost (Market value)	800,000
Less: Gain deferred	(525,000)
Base cost	275,000

(W1) Gain eligible for Gift relief

The shares in the unquoted trading company will qualify for gift relief but as £100,000 (investments) of the £800,000 (investments, premises and goodwill) of chargeable assets are investments the relief is restricted as follows:

$$600,000 \times \frac{700,000}{800,000} = 525,000$$

Answer to Example 10

	£
Disposal proceeds	150,000
less cost	(10,000)
Capital gain	140,000
less PPR relief (W1)	(96,589)
Chargeable Gain	43,411

(W1)	Actual & Deemed Occupation (months)	Absent (months)
1/4/1986 – 30/6/1986 (actual)	3	
1/7/1986 – 30/6/1988 (working overseas)	24	
1/7/1988 – 31/12/2002 (actual)	174	
1/1/2003 – 30/6/2018 (4 years work in UK/last 18 months)	66	120
	267	120

$$\text{PPR relief } \frac{267}{387} \times 140,000 = 96,589$$

Answer to Example 11

	£		
Disposal proceeds	250,000		
Less cost	(30,000)		
Capital Gain	220,000		
Less PPR relief (W1)	(109,147)		
	110,853		
Less Letting relief (W2)	(17,054)		
Chargeable Gain	93,799		
(W1)	<i>Actual & Deemed (months)</i>	<i>Absent (months)</i>	
1/4/1986 – 31/3/1988 (actual)	24		
1/4/1988 – 30/9/1993 (Any reason)	36	30 (house let)	
1/10/1993 – 31/3/2003 (actual)	114		
1/4/2003 – 30/6/2018 (last 18 months)	18	165	
	192	195	387
PPR relief	$\frac{192}{387} \times 220,000 = 109,147$		
(W2) (i)	£109,147		
(ii)	£40,000		
(iii)	$\frac{30}{387} \times 220,000 = 17,054$		

Chapter 15**Answer to Example 1**

The payments on account for 2018/19 will be based on the tax payable by self assessment and the class 4 (NIC) liability in 2017/18

Due dates:

31/1/2019 $\frac{13,000}{2}$ = £6,500

31/7/2019 $\frac{13,000}{2}$ = £6,500

The Balancing payment for 2018/19 is made up as follows

	£
Total income tax liability	14,000
Less tax deducted at source	(2,000)
Income tax payable by self assessment	12,000
Class 4 NIC liability	2,500
Capital Gains tax	1,700
less Payments on Account	(13,000)
Balancing Payment due 31/1/2020	3,200

The payments on Account for 2019/20 will be based on the income tax payable by self assessment and class 4 NIC liability in 2018/19

31/1/2020 $(12,000 + 2,500)/2$ = 7,250

31/7/2020 = 7,250

Total payment to be made on 31 January 2020 is 10,450 (3,200 + 7,250)

Chapter 16

Answer to Example 1

Corporation tax computation for the chargeable accounting period of 12 months ended 31 March 2019

Tax adjusted trading profits		1,456,500
Property income		25,000
Interest receivable		10,000
Chargeable gains	37,500	
Less: Capital losses	<u>(2,500)</u>	<u>35,000</u>
		1,526,500
Less: Qualifying charitable donations		<u>(10,000)</u>
Taxable Total Profits		<u>1,516,500</u>

Note: Dividends from other companies (UK or overseas) are exempt and therefore are ignored when calculating Taxable Total Profits

Chapter 17

Answer to Example 1

	<i>12 months to 31/3/2019 £</i>	<i>3 months to 30/6/2019 £</i>
Adjusted profit (12 : 3)	3,200,000	800,000
Less: CA (W1)	<u>(68,000)</u>	<u>(51,238)</u>
Tax adjusted trading profit	3,132,000	748,762
Chargeable Gain (6/5/2019)	–	80,000
Qualifying charitable donations (31/7/2018)	<u>(20,000)</u>	<u>–</u>
Taxable Total Profits	<u>3,112,000</u>	<u>828,762</u>
Corporation Tax @ 19%	£591,280	£157,465

(W1) 12 months to 31/3/2018

WDV b/f		<i>Main pool Allowances</i> nil
Additions qualifying for AIA - Vans	68,000	
	<u>(68,000)</u>	68,000
3 months to 30/6/2018		
WDV b/f		nil
Additions qualifying for AIA		
Plant & Machinery	77,500	
AIA - (Maximum 200,000 × ¾)	<u>(50,000)</u>	50,000
	<u>27,500</u>	
	27,500	
WDA × 18% × ¾	<u>(1,238)</u>	<u>1,238</u>
		51,238
WDV c/f		<u>26,262</u>

Chapter 18

Answer to Example 1

Current year relief

	y/e 31/3/19 £
Trading profit	NIL
Interest receivable	20,000
Chargeable gain	50,000
Total Profits	70,000
Current year relief	(45,000)
	25,000
Qualifying charitable donations	(15,000)
Taxable Total Profits	10,000

Answer to Example 2

	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading profit	30,000	60,000	NIL
Interest receivable	10,000	10,000	10,000
Total Profits	40,000	70,000	10,000
Current year relief			(10,000) ⁽ⁱ⁾
Carry back relief		(70,000) ⁽ⁱⁱ⁾	
Taxable Total Profits	40,000	–	–

Loss memorandum

Loss arising	
y/e 31/3/2018	90,000
Current year relief	y/e 31/3/2019 (10,000) ⁽ⁱ⁾
Carry back relief	y/e 31/3/2018 (70,000) ⁽ⁱⁱ⁾
Available to carry forward	10,000

Answer to Example 3

	y/e 31/3/17 £	9m to 31/12/2017 £	y/e 31/12/2018 £
Trading profit	25,000	20,000	–
Interest Income	3,000	1,000	1,000
Chargeable Gain	NIL(W1) (W1)	5,000 (W1)	–
Total Profits	28,000	26,000	1,000
Current year relief			(1,000) ^y
Carry back relief (3/12 x 28,000)	(7,000)	(26,000) ^y	–
	21,000	–	–
Less Qualifying charitable donations	(500)	(500) (W2)	(500)(W2)
Taxable Total Profits	20,500	–	–

W1 The capital loss of £1000 is c/f to set off against the £6000 gain of next CAP

W2 Qualifying charitable donations are unrelieved

Loss memorandum

Trading loss

y/e 31/12/2018	40,000
Current year 31/12/2018	(1,000)
	39,000

Carry back to 9m to 31/12/2017 & 3m of y/e 31/3/2017 (26,000 + 7,000) (33,000)

Carry forward 6,000

The loss carried forward may be set off against part of the future total profits of the company.

Answer to Example 4

	y/e 30/9/15 £	6 months 31/3/16 £	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading profit	10,000	16,000	20,000	32,000	–
Interest income	2,000	–	2,000	2,000	2,000
Chargeable Gain	–	–	6,000	–	8,000
	12,000	16,000	28,000	34,000	10,000
Current year relief					(10,000)
Carry back relief	(6,000)	(16,000)	(28,000)	(34,000)	–
Qualifying charitable donations	(500)	–	–	–	–
Taxable Total Profits	5,500	–	–	–	–
Qualifying charitable donations unrelieved			500	500	–
Loss memorandum					£
Loss arising y/e 31/3/2019					97,000
Current year relief y/e 31/3/2019					(10,000)
Carry back relief y/e 31/3/2018					(34,000)
Carry back relief y/e 31/3/2017					(28,000)
Carry back relief 6m to 31/3/2016					(16,000)
Carry back relief y/e 30/9/2015 £12,000 × ½ = £6,000 maximum set off					(6,000)
Loss unrelieved					3,000

Answer to Example 5

	y/e 31/3/16 £	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading income	40,000	20,000	–	20,000
Property Income	3,000	3,000	3,000	3,000
Interest receivable	4,000	3,000	5,000	3,000
	<u>47,000</u>	<u>26,000</u>	<u>8,000</u>	<u>26,000</u>
Current period relief			(i) (8,000)	
Carry back relief / carry forward relief		(ii) (26,000)		(iii) (9,000)
	47,000	–	–	17,000
Less Qualifying charitable donations	(1,000)	–	–	(1,000)
Taxable Total Profits	<u>46,000</u>	<u>–</u>	<u>–</u>	<u>16,000</u>
Unrelieved Qualifying charitable donations		1,000	1,000	
Loss memo	£			
Loss arising y/e 31/3/2018	43,000			
Current year relief 31/3/18	(i) (8,000)			
	<u>35,000</u>			
Carry back relief 31/3/17	(ii) (26,000)			
	<u>9,000</u>			
Carry forward y/e 31/3/2019	(iii) (9,000)			
	<u>–</u>			

If the remaining loss carried forward had been £29,000 instead of £9,000 the claim made would have been restricted to £25,000 so as not to waste the qualifying charitable donations of £1,000. Such a partial claim is not available for either the current period or carry back claims.

The company could decide to not make a claim in the current period and then previous period, but to carry forward all of the loss in order to avoid wasting the qualifying charitable donations paid in those periods and then have the benefit of being able to make partial claims against total profits in the future.

The current and carry back claims are of course more beneficial in terms of cash flow and the carry back claim to the year ended 31 March 2017 will also achieve a tax repayment at a corporate tax rate of 20% instead of only 19%.

Chapter 19**Answer to Example 1**

	£	£
Sale proceeds	100,000	
Less: Incidental costs of sale	<u>(1,000)</u>	
		99,000
Less: Cost	20,000	
Enhancement expenditure	<u>6,000</u>	
		<u>(26,000)</u>
Unindexed gain		73,000
Less: Indexation allowance on cost	20,000 × 1.706	34,120
On enhancement	6,000 × 1.067	<u>6,402</u>
		<u>(40,522)</u>
Chargeable gain		<u>32,478</u>

As the date of disposal is post 31 December 2017, the indexation factors applied are only to December 2017

Answer to Example 2

- 1) Same day X
2) Previous 9 days 500 shares

		£
Proceeds	$\frac{500}{3,000} \times 36,000$	6,000
Less cost		(5,000)
Chargeable gain		1,000

- 3) Share pool
Share Pool

		<i>Number</i> £	<i>Cost</i> £	<i>Indexed cost</i> £
20 August 1989		1,000	5,000	5,000
Index up to November 1996	5,000 x 0.329			1,645
		1,000	5,000	6,645
Addition 16 November 1996		2,000	12,000	12,000
		3,000	17,000	18,645
Index up to December 2017	18,645 x 0.820			15,289
		3,000	17,000	33,934
Disposal 10 October 2018	$\frac{2500}{3000} \times 17,000$: $\frac{2500}{3000} \times 33,934$	(2,500)	(14,167)	(28,278)
		500	2,833	5,656

Calculate the gain on the 2,500 shares

		£
Proceeds	$\frac{2,500}{3,000} \times 36,000$	30,000
Cost		(14,167)
Unindexed gain		15,833
I.A (28,278 – 14,167)		(14,111)
Chargeable gain		1,722

Total Gains

Previous 9 days	1,000
Pool	1,722
Chargeable Gains to include in the corporation tax computation	2,722

Gains

Answer to Example 3

Matching rules

Same day ×

Previous 9 days ×

Share pool ✓

Share pool

July 1993

February 1995 Bonus 1:3

No reindexation of pool (though examiner may still give the indexation factor to that date - ignore!)

Sale

<i>Number</i>	<i>Cost</i>	<i>Indexed cost</i>
£	£	£
3,000	10,000	10,000
1,000	—	—
4,000	10,000	10,000
		9,910
4,000	10,000	19,910
(2,000)	(5,000)	(9,955)
2,000	5,000	9,955

Calculate the Gain

	£
Proceeds	12,000
Less Cost	(5,000)
Unindexed Gain	7,000
Less Indexation allowance (9,955 – 5,000)	(4,955)
Chargeable gain	2,045

Answer to Example 4

	<i>Market value</i>	<i>Cost</i>
B plc ordinary shares $10,000 \times 2 \times £1.50$	30,000	7,500
B plc preference shares $10,000 \times 1 \times £1.00$	10,000	2,500
	40,000	10,000

As the terms of the takeover are a share for share transfer no gain will arise at the time of the takeover with the new shares in B plc taking on the same original cost as the old shares in A Ltd. As 2 types of share are issued at takeover we use the market values of those shares as the basis of dividing the A Ltd share cost, hence the ordinary shares take 30/40 and the preference shares take 10/40 of the £10,000 share cost.

In reality the same method of apportioning the indexed cost column for the A Ltd shares would be applied and re-indexation of the indexed cost column would occur at the time of the takeover as well as at the date of the subsequent share sale. In the (TX-UK) (TX-UK) exam however this has been simplified as shown here with with an indexation factor being supplied from the date the A Ltd shares were acquired through to the disposal of the B plc preference shares

Calculate Gain on sale of preference shares in March 2019:

	£
Proceeds	15,000
Cost	(2,500)
Less: indexation allowance $1.357 \times 2,500$	(3,393)
Chargeable gain	9,107

The cost of B plc ordinary shares when they are sold will be £7,500.

Answer to Example 5

As Z Ltd now receives some cash at the time of the takeover an immediate gain will arise thereon as computed below.

Z Ltd receives at takeover:

	<i>Market value</i>	<i>Cost</i>
20,000 B plc ordinary shares	£30,000	£7,500
Cash	£10,000	£2,500
Total	£40,000	£10,000

Chargeable gain in July 2018:

	<i>£</i>
Proceeds	10,000
Less Cost	(2,500)
Indexation allowance ($1.275 \times £2,500$)	(3,187)
Chargeable gain	4,313

Chapter 20

Answer to Example 1

		<i>£</i>
Proceeds		16,000
Less: Cost	$26,000 \times \frac{16,000}{16,000 + 34,000}$	(8,320)
Unindexed gain		7,680
Less: I.A	$0.269 \times 8,320$	(2,238)
Chargeable gain		5,442

Answer to Example 2

(a) Antique table – this is an exempt asset as cost and proceeds are both $\leq$ £6,000 and it is a non wasting chattel.

(b) Painting – non wasting chattel
Normal calculation

		<i>£</i>
Disposal proceeds		10,000
Cost		(2,000)
		8,000
Less: Indexation allowance	$\frac{280.1 - 217.9}{217.9} = 0.285 \times 2,000$	(570)
Gain		7,430
Restricted to $\frac{2}{3} [10,000 - 6,000] = \text{£6,667}$		

(c) Antique vase – non wasting chattel

	<i>£</i>
Disposal proceeds (deemed)	6,000
Less cost	(8,000)
Capital loss	(2,000)

(d) The vintage car is exempt

	£
Asset (1)	–
Asset (2)	6,667
Asset (3)	(2,000)
Asset (4)	–
Net chargeable Gain	<u>4,667</u>

Answer to Example 3

	£	£
Proceeds		38,000
Less Acquisition cost		
Purchase	25,000	
Less $12/30 \times [25,000 - 1,000]$	(9,600)	
		<u>(15,400)</u>
Unindexed gain		22,600
Less indexation allowance $0.436 \times 15,400$		<u>(6,714)</u>
Chargeable gain		<u>15,886</u>

Answer to Example 4

		£
Proceeds (July 2018)		30,000
Less Acquisition cost	$10,000 \times \frac{30,000}{30,000 + 25,000}$	<u>(5,455)</u>
Unindexed gain		24,545
Less indexation allowance $0.549 \times 5,455$		<u>(2,995)</u>
Chargeable gain		<u>21,550</u>

Answer to Example 5

On 1 July 2018 there is no chargeable gain as the company has elected to rollover the proceeds against the cost of the painting.

When the painting is eventually sold its cost will be:

	£
Original cost	10,000
Less insurance proceeds	<u>(8,000)</u>
Base cost of painting	<u>2,000</u>

In addition the restoration costs themselves of £8,000 can be deducted on a future disposal.

Answer to Example 6

	£
Proceeds	34,000
Less cost	<u>(23,000)</u>
Unindexed gain	11,000
Less: I.A	$0.250 \times 23,000$ <u>(5,750)</u>
Chargeable gain	5,250
Less gain rolled over	<u>(1,250)</u>
Revised chargeable gain	<u>4,000</u>

Proceeds have been used to buy a replacement asset but only partially used, therefore £4,000 (£34,000 – £30,000) of the gain is chargeable immediately and £1,250 (£5,250 – £4,000) can be deferred.

Base cost of the replacement asset

Cost	30,000
Less Gain Deferred	<u>(1,250)</u>
Base cost	28,750

Chapter 21**Answer to Example 1**

	£
Proceeds	400,000
Less Cost	<u>(150,000)</u>
Unindexed Gain	250,000
Less: I.A	$0.929 \times 150,000$ <u>(139,350)</u>
Chargeable gain	110,650

Proceeds are fully reinvested into a qualifying asset within the specified time period, so the entire gain of £110,650 can be deferred until the sale of the land.

Base cost of the land

Cost	500,000
Less Gain deferred	<u>(110,650)</u>
Base cost	389,350

Answer to Example 2

	£
Proceeds	350,000
Cost	<u>(200,000)</u>
	150,000
Less: I.A	$\frac{280.1 - 181.5}{181.5} = 0.543 \times 200,000$ <u>(108,600)</u>
Chargeable gain	<u>41,400</u>

Proceeds not reinvested = 350,000 – 335,000 = £15,000

.Therefore £15,000 will be chargeable and the remaining gain of £26,400 (41,400 – 15,000) can be deferred

Base cost of new asset:

Cost	335,000
Gain deferred	<u>(26,400)</u>
	<u>308,600</u>

Answer to Example 3

		£
Proceeds		350,000
Cost		(200,000)
		<u>150,000</u>
I.A	0.361 x 200,000	(72,200)
		<u>77,800</u>

The gain is deferred due to the purchase of the fixed plant within 3 years of the disposal date and will be chargeable in year ended 31 March 2019, when the depreciating asset is sold/ceases to be used in the trade (Feb 2019). This is earlier than 10 years from its date of acquisition (March 2023).

Chapter 22**Answer to Example 1**

A Ltd has three wholly owned subsidiaries and thus there are four related 51% group companies, meaning that each group member will have a revised profit limit of £375,000 (£1.5M / 4).

A Ltd with a TTP of £400,000 will therefore be a large company and if it was large in the previous CAP should have made quarterly instalment payments for this period and will be required to make quarterly instalment payments for the next CAP if its estimated profits for that period will exceed £375,000.

If the TTP had been say £350,000 but A Ltd received dividends from non subsidiary companies of £40,000 then its Augmented Profit figure would be £390,000 and again it would be a large company

Answer to Example 2

Group relief

- (1) Z plc will be able to group relieve its trading loss to effective 75% subsidiaries. The shareholding can be held directly or indirectly.
- (2) Z plc will therefore be able to group relieve its trading loss to A Ltd and B Ltd.
- (3) Z plc does not have the required 75% shareholding in C Ltd ($100\% \times 80\% \times 80\% = 64\%$).

C Ltd may however separately group relieve with B Ltd its 80% parent. It is therefore possible that where sub - subsidiaries (indirect subsidiaries) exist there will be more than one group for purposes of group relief.

Answer to Example 3

- (1) Group relief to B Ltd will be restricted to 6/12ths of Z plc's trading loss for the year ended 31 March 2019.
- (2) The set-off will be against B Ltd's Taxable Total Profits for the six-month period to 31 March 2019.

Answer to Example 4

Both Beyonce Ltd and Z Ltd prepare accounts to 31 March but as Z Ltd only commenced trading on 1 January, 2019 only £60,000 ($3/12 \times 240,000$) of Beyonce's loss period corresponds with Z Ltd's profit period. This, however will not be a problem as Z Ltd's profit is only £50,000 and will therefore represent the maximum group relief available.

J Ltd's accounting period is not coterminous and therefore both its profits and Beyonce's loss must be time apportioned between the corresponding periods:

3 months of Beyonce's loss corresponds with 3 months of J's profit for the year ended 30 June 2018, hence maximum group relief in this period is lower of:

$$3/12 \times (240,000) = (60,000)$$

$$3/12 \times 160,000 = 40,000$$

Maximum group relief is therefore £40,000.

9 months of Beyonce's loss corresponds with 9 months of J's profit for the year ended 30 June 2019, hence group relief in this period is restricted to lower of:

$$9/12 \times (240,000) = 180,000$$

$$9/12 \times 280,000 = 210,000$$

Maximum group relief is therefore £180,000

Answer to Example 5

An election may be made, the matching election, to deem any part of a gain or loss made by one gains group member to have been made by any other gains group member. This will allow gains and losses to be set off within the group rather than carrying forward an unused capital loss in one group company while being taxed on a gain in another group company.

Initially therefore it would appear that electing to either deem the loss made by Large Ltd to have been made by Smaller Ltd, or deeming £35,000 of Smaller Ltd's gain to have been made by Large Ltd would have the same effect of matching the gains with the losses and either approach may be proposed, but there is a further issue to be identified that will suggest that it would be preferable to transfer at least £50,000 of the gain from Smaller Ltd to Large Ltd.

Both companies are currently large companies, which notwithstanding their size in the previous chargeable accounting period (CAP) will mean that they will both be required to make quarterly instalment payments in relation to the next CAP if they are both estimating large profits for that period.. This will result in an adverse cash flow position for both group companies. They are large companies as their profits are above the profits threshold of £750,000 (£1.5M divided between two 51% related group companies)

It would be beneficial therefore to transfer at least £50,000 of the gain from Smaller Ltd to Large Ltd which will bring Smaller Ltd's profits down from £800,000 to £750,000 and will therefore remove the requirement for Smaller Ltd to make quarterly instalment payments for the next CAP. This result would not be achieved if the loss was transferred to Smaller Ltd as this would still leave Smaller Ltd with profits in excess of £750,000.

Chapter 23**Answer to Example 1**

Photo Plc

Corporation tax liability

£2M x 3/12 x 20% =	100,000
£2M x 9/12 x 19% =	285,000
	385,000

All payable by instalments

This will be paid as follows:

£96,250	on	14 July 2018
£96,250	on	14 October 2018
£96,250	on	14 January 2019
£96,250	on	14 April 2019

In reality of course as the payments are based on an estimate of the current year's liability and the first payment is made in only the 7th month of the accounting period the amounts paid are likely to change at each payment date as that estimate is updated. Interest will be payable at 2.75% pa on any underpayments and will be receivable by the company at a rate of 0.5% on any overpayments. These amounts would be included within the Interest Income assessment on the Corporation Tax computation.

Chapter 24

Answer to Example 1

Chargeable Transfers

	20/11/12 <i>PET</i>	15/7/13 <i>CLT</i>	8/12/2017 <i>PET</i>
Transfer of value	40,000	405,000	184,000 (W1)
Less: Exemptions			
Marriage	(5,000)		
AE 2012/13	(3,000)		
AE 2011/12	(3,000)		
AE 2013/14		(3,000)	
AE 2017/18			(3,000)
AE 2016/17			(3,000)
	<u>29,000</u>	<u>402,000</u>	<u>178,000</u>

W1 Transfer of value

Before transfer (16,000 @ £25) = 400,000

After transfer (12,000 @ £18) = (216,000)

184,000

Lifetime Transfers Chargeable When Made

	£	Gross Transfers	IHT
15/7/2013 CLT	402,000	421,250	19,250
325,000 @ nil = nil			
<u>77,000 @ 25% = 19,250</u>			
<u>402,000</u>			

Lifetime Transfers Chargeable on Death – April 1, 2019

	Gross Transfers	IHT
20/11/2012 PET	29,000	nil
15/7/2013 CLT	<u>421,250</u>	<u>50,100</u>
Available nil rate band (325,000 - 29,000) = 296,000		
296,000 @ nil = nil	450,250	
<u>125,250 @ 40% = 50,100</u>		
<u>421,250</u>		
Less: Taper Relief (60%) (5-6 years)		<u>(30,060)</u>
		20,040
Less: Lifetime tax paid		<u>(19,250)</u>
Additional tax due on death		<u>790</u>
8/12/2017 PET	<u>178,000</u>	<u>71,200</u>
178,000 @ 40% = 71,200	<u>628,250</u>	

Chargeable Estate at Death – April 1, 2019.

	£	£
Principal Private Residence	300,000	
Less: Repayment Mortgage	<u>(80,000)</u>	220,000
Holiday Home		140,000
Bank & Building Society Deposits		230,000
ISA's		50,000
Shares (12,000 @ £20)		240,000
Life Assurance		<u>140,000</u>
		1,020,000
Less: Debts	6,000	
Funeral Expenses	<u>6,000</u>	<u>(12,000)</u>
		1,008,000
Less: Exempt bequest to spouse		<u>(250,000)</u>
Chargeable Estate		<u>758,000</u>
Gross Chargeable Transfers in 7 years before death		<u>628,250</u>
Nil Rate Band fully used but residence nil rate band available as main residence left to direct descendant		
125,000 @ nil		
633,000 @ 40%		<u>£253,200</u>

Answer to Example 2

The gift on 1 October 2006 to her son is a PET. This was not chargeable when made nor will it be chargeable on death as Dee survived for the required 7 years. The transfer is therefore exempt but will be deemed to have used the Annual Exemptions for 06/07 and 05/06

The gift on 1 June 2007 is a CLT and was chargeable when made but not on death as again Dee survived for 7 years.

The gift on 1 September 2013 is a PET and will be chargeable on death as Dee died within the next 7 years.

Step 1 Compute the Chargeable Transfers

	1/6/07 CLT	1/9/13 PET
Transfer of value	311,000	296,000
Less: Exemptions		
AE 07/2008	(3,000)	
AE 13/2014		(3,000)
AE 12/2013		<u>(3,000)</u>
Chargeable Transfer	<u>308,000</u>	<u>290,000</u>

AE 06/07 will have been applied to the 1 October 2006 PET despite it never becoming chargeable.

Step 2 Lifetime Transfers Chargeable When Made

	£	Gross Transfers	IHT
1/6/2007 CLT	308,000	310,000	<u>2,000</u>
300,000 @ nil = nil			
8,000 @ 25% = 2,000			

As the donor, Dee, paid the IHT, the transfer is a net transfer and therefore the excess over the nil rate band is taxed at 25%

Step 3 Lifetime Transfers Chargeable on Death

This is the hardest part of the question and requires us to firstly determine the earliest transfer within the 7 years before death as the starting point. In this example there is only one such transfer the PET on 1/9/13. However in computing any IHT payable on this transfer we must take account of what nil rate band is available after firstly deducting from it any CLT's made within the 7 years of this transfer:

		<i>Gross Transfers</i>	<i>IHT</i>
CLT 7 years < 1/9/2013		310,000	
1/9/2013	PET	290,000	110,000
Available nil rate band = 325,000 – 310,000		600,000	
	= 15,000 @ nil		= nil
	275,000 @ 40%		= 110,000
	<u>290,000</u>		
Less:	Taper Relief ((5-6 years) 60%)		<u>(66,000)</u>
			<u>44,000</u>

Although the CLT of 1 June 2007 has drastically affected the tax payable on the PET of 1 September 2013 it will only be relevant for transfers within the following 7 years hence any transfer after that date (1 June 2015), or as here the Chargeable Estate, will not take account of this earlier CLT in computing any IHT payable.

The 7 year cumulation period at the date of death will only therefore consider the PET of 1 September 2013 in determining any available nil rate band.

As there is no mention in the question of a main residence being included in the estate at death there is no residence nil rate band to apply.

Step 4 Chargeable Estate at Death – 1 March 2019

Chargeable Estate		500,000
Available nil rate band = 325,000 – 290,000 = 35,000		
IHT on Estate		
	35,000 @ nil	= nil
	<u>465,000 @ 40%</u>	= <u>186,000</u>
	<u>500,000</u>	

Chapter 25

Answer to Example 1

- (a) Orchid Ltd will become liable to compulsory VAT registration when its taxable supplies during any 12-month period exceed £85,000.

The taxable supplies for the first 12 months of trading to 31 May 2019 amount to only 64,400 so we now move forward adding in the next month, June 2019 and removing the sales of what is now 13 months ago, June 2018, as this revised 12 month total is only 72,300 compulsory registration is still not required. When we move forward to the end of July 2019, however taxable supplies will amount to £86,000 (4,300 + 5,100 + 4,700 + 4,700 + 4,900 + 4,800 + 6,000 + 6,100 + 7,900 + 8,200 + 11,800 + 17,500).

- (b) Orchid Ltd will have to notify HMRC by 30 August 2019, being 30 days after the end of the period.
(c) The company will be registered from 1 September 2019 or from an agreed earlier date.

Answer to Example 2

A business must register for VAT if there are reasonable grounds for believing that taxable supplies will exceed £85,000 in the following 30 days.

Forecast income is £90,000 per month, and so taxable supplies for the 30-day period to 30 April 2019 will exceed £85,000.

Tulip Ltd will have to notify HMRC by 30 April 2019, being the end of the 30-day period, and will be registered from 1 April 2019.

Answer to Example 3

Prior to putting up its prices, Vine Ltd's net profit is £75,200 (£80,000 - £4,800).

If Vine Ltd puts up its prices, then it will exceed the VAT registration limit of £85,000, and the business will have to register for VAT.

Output VAT will have to be absorbed by Vine Ltd, as sales are to the general public and there is no further scope for price increases.

The revised annual net profit will be:

	£
Income ($87,000 \times 100/120$)	72,500
Expenses ($4,800 \times 100/120$)	(4,000)
Net profit	68,500

This is a decrease in net profit of £6,700 (75,200 - 68,500), and so it is not beneficial for Vine Ltd to put up its prices.

Answer to Example 4

VAT Return - Quarter ended 31 March 2019

	£	£
Output VAT (note 1)		
Sales (60,000 x 95% (100% - 5%) x 20%)		11,400
(60,000 x 20%)		12,000
Input VAT		
Purchases and expenses (35,640 - 480 = 35,160 x 20%) (note 2)	7,032	
Irrecoverable debt (2,000 x 20%) (note 3)	400	
Machinery (21,150 x 20/120) (note 4)	3,525	
		<u>10,937</u>
VAT payable		<u>12,463</u>
Due date (see Section 5 of chapter)		7/05/18

Notes:

- (1) The calculation of output VAT will only take into account the discount for prompt payment if customers do take it.
- (2) Input VAT on UK customer entertaining cannot be reclaimed (If they had been overseas customers the input tax would be recoverable).
- (3) Relief for an irrecoverable debt is not given until six months from the time that payment is due.
- (4) Input VAT on motor cars not used wholly for business purposes cannot be reclaimed.

Answer to Example 5

Input VAT can be reclaimed in respect of the cost of petrol and repairs.

Because fuel is being provided for private use to the director, Poppy plc will have to account for output VAT based on the scale charge.

The quarterly cost is £74 ($445 \times \frac{20}{120}$)**Answer to Example 6**

The late submission of the VAT return for the quarter ended 30 September 2017 will have resulted in HMRC issuing a surcharge liability notice specifying a surcharge period running to 30 September 2018.

The late payment of VAT for the quarter ended 31 December 2017 will result in a surcharge of £426 ($£21,300 \times 2\%$).

The surcharge period will have been extended to 31 December 2018.

Bluebell Ltd then submitted four VAT returns on time.

The late submission of the VAT return for the quarter ended 31 March 2019 will therefore only result in a surcharge liability notice (specifying a surcharge period running to 31 March 2020).

Answer to Example 7

Greater of

- £10,000 ✓
- $1\% \times 700,000 = £7,000$

The de minimis level is therefore £10,000. As the error is less than the de minimis level, it can be disclosed on the next VAT return, that is the VAT return for the quarter to 31 March 2019. No interest will be charged by HMRC but a penalty for submission of an incorrect return could be imposed, unless Blanche Ltd simply made a mistake. But if HMRC believes Blanche Ltd failed to take reasonable care, the penalty may be $30\% \times £8,500 = £2,550$.

Answer to Example 8

- (1) The export of £50,000 of goods to the VAT registered customer in France will be zero rated.
- (2) The export of £10,000 of goods to the non VAT registered individual in Latvia will need to have VAT equal to $(20\% \times £10,000)$ £2,000 accounted for by BW Ltd on its VAT return as output VAT.
- (3) The import of £12,000 of goods from the Non EU supplier will necessitate VAT of $£12,000 \times 20\% = £2,400$ being paid to HMRC at the point of entry (assuming the duty deferment scheme is not in place). This can then be recovered as input VAT on the VAT Return.
- (4) The import of £20,000 of goods from the EU supplier will involve a "self supply" of output VAT of $£20,000 \times 20\% = £4,000$ being accounted for by BW Ltd on its VAT Return for quarter to 31 March 2019. However assuming BW Ltd makes wholly taxable supplies the same amount of £4,000 can be recovered as input VAT.

Extract from BW Ltd VAT return for quarter to 31 March 2019

	£
Output VAT	
1) On supplies to Non VAT registered EU customer	2,000
2) On self supply of acquisition from EU supplier	4,000
Input VAT	
1) On import from non EU supplier	(2,400)
2) On self supply of acquisition from EU supplier	(4,000)