

Chapter 6

Answer to Example 1

- (a) 2020/21
- (b) 2020/21
- (c) 2021/22

Answer to Example 2

			£
2020/21	Actual (1/01/2021 – 5/04/2021)	$\frac{3}{6} \times 30,000$	15,000
2021/22	First 12 months (1/01/2021 – 31/12/2021)		
	1/01/2021 – 30/06/2021	30,000	
	1/07/2021 – 31/12/2021	$\frac{6}{12} \times 70,000$	35,000
2022/23	CYB (year to 30/06/2022)		70,000
2023/24	CYB (year to 30/06/2023)		82,000
Overlap profits:	1/01/2021 – 5/04/2021	15,000	
	1/07/2021 – 31/12/2021	35,000	50,000

Answer to Example 3

			£
2020/21	Actual (1/05/2020 – 5/04/2021)	$\frac{11}{18} \times 36,000$	22,000
2021/22	12 months to 31/10/2021	$\frac{12}{18} \times 36,000$	24,000
2022/23	CYB (y/e 31/10/2022)		30,000
Overlap profits	1/11/2020 – 5/04/2021	$\frac{5}{18} \times 36,000$	10,000

Answer to Example 4

2020/21	Actual (1/12/2020 – 5/04/2021)	$\frac{4}{18} \times 54,000$	12,000
2021/22	Actual (6/04/2021 – 5/04/2022)	$\frac{12}{18} \times 54,000$	36,000
2022/23	12 months to 31/05/2022 (1/06/2021 – 31/05/2022)	$\frac{12}{18} \times 54,000$	36,000
2023/24	CYB (y/e 31/05/2023)		48,000
Overlap profit	1/06/2021 – 5/04/2022	$\frac{10}{18} \times 54,000$	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

		£
2021/22	CYB (y/e 31/01/2022)	47,000
2022/23	4 months to 31 May 2022 (1/02/2022 – 31/05/2022)	8,000
	Less: overlap relief	<u>(6,000)</u>
		2,000

Boris ceased trading on 31 May 2022, thus making the final tax year 2022/23 and making the penultimate tax year 2021/22 which using CYB assesses the year ended 31 January 2022. The assessment for the final tax year 2022/23 is then made of the remaining period of profit less the overlap relief.

Answer to Example 6

Income tax computation 2021/22

	<i>Non savings</i>
Employment Income (3/12 x 40,000)	10,000
Trading Profit (W1)	54,596
Total Income	64,596
Personal allowance	(12,570)
Taxable income	52,026
Tax calculation:	
37,700 @ 20%	7,540
14,326 @ 40 %	5,730
52,026	
Income Tax Liability	13,270

As Wendy started to trade on 1 July 2021 the first tax year of assessment is 2021/22,
 2021/22 (Actual) (1/07/2021 - 5/04/2022)
 = 54,596

(W1) Adjusted profit	89,000
Less capital allowance (W2)	(34,404)
Trading income	54,596

(W2)

	£	£	60% Business use Allowances asset (1) £	£
Accounting Period to 5 April 2022		–		
Additions qualifying for AIA (max 9/12 x £1M)				
Recording equipment	30,000			
Computer	2,600			32,600
Other Additions				
Motor car (< 51g/km)		10,400		
Motor car (>50g/km)			14,800	
		10,400	14,800	
WDA × 18% x 9/12		(1,404)		1,404
WDA × 6% x 9/12			(666) × 60%	400
				34,404
WDV c/f		8,996	14,134	

Answer to Example 7

	£
Revenues	61,000
Cost of sales (29,000 – 1,800)	<u>(27,200)</u>
	33,800
Motor expenses (3,600 x 60%)	(2,160)
Capital allowances (8,000 + (12,000 x 18% x 60%))	<u>(9,296)</u>
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>
	19,300

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**

	2019/20	2020/21	2021/22
	£	£	£
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 2020/21	<u>(3,000)</u>
	2,000
Less: carry forward relief in 2021/22	<u>(2,000)</u>
Loss carried forward	<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 2020/21 and the remainder carried forward to 2021/22.

Answer to Example 2

Trading profit assessments: £

2020/21

Year ended 31 December 2020 32,000

2021/22

Year ended 31 December 2021 25,000

2022/23

Year ended 31 December 2022 NIL

Income tax computations

	2020/21	2021/22	2022/23
	£	£	£
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	(12,570)	(12,570)	(12,570)
Taxable income	25,430	–	–

- A claim against total income in 2022/23 would waste the personal allowance and save no income tax, hence no claim is made in the current tax year. The claim in 2021/22 will also waste the PA but will generate a repayment of tax of 20% on what would otherwise have been a taxable income of £18,430 (31,000 - 12,570).
- 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 2021/22 (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 2021/22. 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: AEA	(12,300)
Capital loss b/f	(4,000)
Taxable gains for 2021/22	3,700

Answer to Example 4

Trading income assessable amounts:

	<i>Assessment</i>	<i>Loss</i>
2020/21 (Actual basis)		
1/08/2020 – 5/04/2021 ($\frac{8}{12} \times (20,000)$)	Nil	(£16,000)
2021/22 (First 12 months)		
1/08/2020 – 31/07/2021		
Loss to 31/05/2021	(20,000)	
Less: Used in 2020/21	<u>16,000</u>	
	(4,000)	
Profits $2/12 \times 48,000$	<u>8,000</u>	
	<u>4,000</u>	
2022/23 (CYB)		
A/C year ended 31/05/2022	48,000	

When calculating the amount assessable for 2021/22, the loss already taken into account in 2020/21 must be deducted. The loss of £4,000 allocated to 2021/22 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 2020/21. 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 2021/22 and 2022/23 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>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>	<i>2022/23</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Employment Income	15,800	11,050	5,868			
Trading profit (W1)				Nil	Nil	2,500
Other income	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>
Total income	20,300	15,550	10,368	4,500	4,500	7,000
Less: Opening years relief	<u>(9,000)</u>	<u>(3,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net Income	11,300	12,550	10,368	4,500	4,500	7,000
Less: Personal Allowances	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>
Taxable income	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

Using opening years loss relief the loss of 2020/21 (£9,000) is set initially against Total Income of 2017/18. Any loss remaining would then be set automatically against Total Income of 2018/19 and finally against Total Income of 2019/20. In this example however there is clearly sufficient income in 2017/18 to absorb all the available loss of 2020/21. It does however result in some wastage of the personal allowance for 2017/18. The loss of 2021/22 (£3,000) is then set against Total Income of 2018/19 (before relieving 2019/20 and 2020/21 had any loss remained).

Workings

(W1) New business – assessments

		<i>Assessment</i>	<i>Loss</i>
2020/21 (Actual)	1/7/2020 – 5/4/2021	Nil	
	$\frac{1}{2} \times (12,000)$		(9,000)
2021/22 (CYB)	y/e 30/6/2021	Nil	(12,000)
	Less: used in 2020/21		9,000
			<u>(3,000)</u>
2022/23	(y/e 30/6/2022)	2,500	
	Loss available for relief		
2021/22		(9,000)	
2022/23		(3,000)	

Answer to Example 6

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

2022/23	
6/4/2022 – 31/5/2022	
$\frac{3}{10} \times (20,000)$	(4,000)
Overlap Relief	(5,000)
2021/22	
1/6/2021 – 5/4/2022	
$\frac{3}{12} \times 6,000$	1,000
+ $\frac{8}{10} \times (20,000)$	(16,000)
Trading Loss available under terminal loss relief	<u>(15,000)</u>
	<u>(24,000)</u>

The loss of £24,000 would then be set off against the trading profits of firstly 2021/22 of £6,000 leaving the remaining £18,000 to be used against the £28,000 trading profit assessment of 2020/21

Chapter 8**Answer to Example 1**

	<i>Total</i>	<i>Doug</i>	<i>Rob</i>
	<i>£</i>	<i>£</i>	<i>£</i>
A/C Year Ended 30/9/2022	<u>18,000</u>		
1/10/2021 to 30/6/2022			
(Profits £18,000 $\times \frac{1}{2}$ = 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>
1/7/2022 to 30/9/2022			
(Profits £18,000 $\times \frac{3}{12}$ = 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 2022/23, as the partners are continuing the trade the normal CYB assessment will apply.