Tolley® Exam Training

PRACTICE EXAMINATION: FA 2021
CTA AT OMB

You should answer **all** questions.

Type up your answers and ensure you clearly label which question each answer relates to.

All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.

Up to two bonus marks could be awarded for presentation and higher skills (clarity of explanation) on marginal scripts in the real exam.

You may assume that 2021/22 rates and allowances continue to apply for 2022/23 and future years. Candidates referring to actual or pending rates and allowances for 2022/23 and future years will not be penalised.

1. Aqib Dawood started to trade on 1 January 2021 as a manufacturer of custom made garden furniture. During his first year he borrowed a substantial sum of money to invest in the latest technology for use in the business. Due to high interest charges and start up costs, he has an adjusted loss before capital allowances of £20,000 for the year ended 31 December 2021. Capital allowances of £12,000 are also available. As a result of a recent contract he has signed with a large garden centre chain Aqib anticipates profits of £90,000 (after capital allowances) for the year ended 31 December 2022.

Prior to the commencement of trading, Aqib was employed earning £37,000 per annum. He also receives interest income of £1,000 (gross) each year.

In May 2021 Aqib disposed of a plot of land in order to raise additional capital for the business. The disposal resulted in a gain of £15,000.

Aqib is unsure of the ways in which he can obtain relief for the loss suffered.

Requirement:

1) **Explain the options available to Aqib in respect of obtaining loss relief, providing calculations where relevant; and** (15)

2) **Explain the restriction that applies to prevent certain reliefs including loss relief being used excessively by individuals with high incomes, setting out clearly when the restriction applies to loss relief claims.** (5)

You are NOT required to refer to restrictions in respect of non-active traders.

Total (20)

2017/18	2018/19	2019/20
£0 – 33,500 @ 20%	£0 – 34,500 @ 20%	£0 – 37,500 @ 20%
£33,501 - 150,000 @ 40%	£34,501 - 150,000 @ 40%	£37,501 - 150,000 @ 40%
PA £11,500	PA £11,850	PA £12,500

2. Amber Penhaligon has run her own photography business for many years. The business is run from an extension to Amber's house which has been converted to a small studio. Amber spends 50% of her working time in the studio and 50% at external locations. On average she works 115 hours per month. She has previously used an accounting date of 30 June but decided to change her accounting date to 30 November. Her adjusted profits for the year ended 30 June 2020 were £43,000.

Amber has summarised her income and expenses for the period ended 30 November 2021 as follows:

	£	£
Sales		69,034
Deduct purchases	24,230	
Less: Stock and work in progress at 30.11.21	9,100	15,130
Gross Profit		53,904
Deduct:		
Salary paid to Amber	18,000	
Advertising	2,100	
Depreciation	300	
Sundry expenses	120	
Motor expenses	2,550	
Bad debts	4,000	27,070
Net profit		26,834
Bank interest received		290
Profit		27,124

Notes

1) The motor expenses relate to the car (acquired May 2018; CO_2 emissions 105g/km) used by Amber for business purposes. Amber occasionally uses the car for private travel and estimates the private use element to be 15% of the total use. Total mileage for the period ended 30 November 2021 was 8,500 miles.

2) £1,050 of the deduction for bad debts relates to an amount owed to Amber by a business which has gone into liquidation and will not be making any further payment. The remaining amount has been deducted by Amber in case any customers fail to make payment next year.

3) Sundry expenses are speeding tickets incurred by Amber on the way to engagements.

Amber wishes to claim flat rate expenses where possible, to reduce her record keeping requirements.

Amber purchased new studio equipment costing £3,750 in February 2021 and a new light meter costing £2,500 in August 2021. The written down value on the general pool for capital allowances was £5,100 on 1 July 2020. The written down value of Amber's car was £7,200.

Amber has overlap profits relating to a 9-month period available of £7,000.

Amber has heard about the cash basis for small businesses. She is not sure whether she would be able to use this method of accounting, and what the implications would be if she decided to move to the cash basis.

Requirement:

1) Calculate the profits chargeable to tax for 2021/22; and (9)

2) Explain the application and implications of the cash basis for Amber. (6)

Total (15)

3. **Requirement:**

1) Explain what is meant by 'plant' for capital allowances purposes. Your answer should include reference to statute and relevant case law. (6)

2) Explain and calculate the maximum plant and machinery capital allowances available for the ABC Partnership for the year ended 31 March 2022 based on the following:

a) Fixed partitioning costing £10,000 was acquired in September 2021.

b) A new air conditioning system was purchased for £1,245,000 on 30 October 2021.

c) The partnership acquired 1,000 computer monitors for its various factories at a cost of £1,000 each on 1 February 2022. These monitors will be obsolete and scrapped within four years.

d) New blasting equipment costing £21,000 was ordered on 1 March 2022 and delivered on 15 March 2022. Payment for this was not due until 31 August 2022.

The pool of unutilised capital expenditure brought forward at 1 April 2021 was nil. (9)

Total (15)

4. Doug and Sue are brother and sister and formed their company, Showers Ltd, which produces designer umbrellas and wellington boots, in October 2000. Doug subscribed £40,000 for 8,000 shares and Sue subscribed £10,000 for the remaining 2,000 shares.

When the company was set up, Doug and Sue both worked full time for Showers Ltd but Sue decided to return to university to study meteorology in 2019 and has not worked for the company since then.

Initially the company traded from premises rented from a third party. However, as the company expanded, Doug purchased a factory in his name which he then rented to the company. The factory cost £280,000 in early October 2006. The company paid rent of £14,000 per annum although the market rent would have been £20,000.

The company has continued to do well and Doug and Sue have recently received an offer from a local businessman to buy the shares in the company. The shares have been independently valued at £60 per share. The assets of the company consist of stock, fixed assets, goodwill and debtors.

The purchaser wishes to acquire all the shares in the company and would also be willing to purchase the factory for its market value of £450,000. However, Doug is also considering selling the factory to his son to provide him with an additional income stream. His son, who is a doctor, will pay £50,000 for the factory. Any disposals are likely to take place by the end of June 2022.

Doug has significant investment income of approximately £50,000 gross per annum in addition to the salary and dividends he receives from Showers Ltd. He makes capital disposals each year which utilise his annual exempt amount.

Sue receives income of approximately £10,000 gross per annum from a family trust. Sue is keen to sell her shares as she is planning to use the proceeds to pay for a deposit on a new home.

Requirement:

Explain the capital gains tax implications of the proposed disposals, including an explanation of any potential reliefs and a calculation of any tax payable by Doug and Sue. Highlight any action which could be taken to reduce the overall liability.

(20)

5. Emily and Amy have been in partnership since 1993, running a beauty salon. They trade from leased premises in Bristol. The only partnership asset is goodwill, bought by Emily and Amy for £50,000 in April 1995.

On 1 July 2021 Amy retired from the partnership and Ethan was admitted. Emily has always taken a prior salary of £15,000, with the balance of income and capital profits being split equally.

Immediately prior to Ethan's introduction, the goodwill was revalued in the partnership accounts at its then market value of £200,000.

After the introduction of Ethan as a partner, it is agreed that Emily will increase her salary to £25,000, with income and capital profits thereafter split between Emily and Ethan 40:60 respectively. Ethan also introduced £100,000 into the partnership as capital and will be paid a rate of interest at 3% per annum.

Profits for the partnership are as follows:

Year Ended	Taxable Trading Profits	
30 September 2021	£54,000	
30 September 2022	£60,000	(estimated)

Profits of the year ended 30 September 1997 were £32,000 (after capital allowances of £4,200).

Requirement:

1) **Calculate, for each partner, the assessable profits and any overlap profit for the years 2021/22 and 2022/23.** (7)

2) **Calculate the capital gains tax liabilities for Amy and Emily for 2021/22 assuming neither have any other gains or losses and show the base cost of Ethan's partnership share for CGT purposes.** (3)

Total (10)

6. David Anderson owns a manufacturing business which makes and repairs luxury coaches. For over 20 years David has traded from two freehold factories in Scarborough but he has decided that, in order to widen the client base, a factory needs to be acquired in the South.

David sold one of the existing factories for £350,000 on 1 November 2021. It was acquired by him for £68,000 on 1 November 1996. Initially the factory was let to another manufacturing business but David's business moved into the factory when the lease came to an end on 31 October 2001.

He has identified two possible replacement factory options. Firstly, he is considering purchasing a new freehold factory in Southampton costing £300,000. An element of the space will be surplus to David's requirements initially so he anticipates letting 15% of the space.

Alternatively he has been offered a 40 year lease on a factory in Oxford costing £220,000.

David is also planning to spend £40,000 on a fleet of vans for the business.

David is an additional rate taxpayer. He made no other capital disposals in 2021/22.

Requirement:

Discuss the capital gains tax implications of the sale of the factory in November 2021 and explain any possible claims for relief, taking into account David's proposed expenditure. (20)