

# Business Tax: Maria's scenario

## Answer book

May 2017

## Business Tax: Maria's scenario

Maria de Sousa operated as a sole trader for three years running a food stall offering fresh cooked Brazilian food and imported goods. She has been very successful and recently noticed that the imported goods side of the business has taken off. She is planning to change her business entity to a limited company and focus on the import side of her business. She is now looking to complete her accounts and tax payments as a sole trader before considering becoming a limited company.

She has produced the following information for the preparation of her tax return:

Year ended 30 September 2016:

Sales	£	£
		92,000
Less:		
Cost of sales	32,000	
Freight	5,205	
		<u>37,205</u>
Gross profit		54,795
Less: overheads		
Wages	12,000	
Rent	1,200	
Insurance	325	
Telephone	250	
Vehicle expenses	5,000	
Bank charges	90	
Bad debts	500	
Professional fees	650	
Depreciation	2,000	
Repairs and renewals	<u>2,500</u>	
		<u>24,515</u>
Net profit		30,280

Notes:

1. Maria took fresh food for her own use, which cost £1100 in the year, Maria operates on a mark up of 60%. The purchase price is included in cost of sales.
2. Wages include Maria's wages of £8000.
3. Vehicle expenses include a vehicle lease of £325 per month, the car has a CO2 emission of 135g/km.
4. Bad debts are based on a value that Maria believes to be unpaid, based on the value of her debtors at the end of the year.
5. Professional fees are for accountancy services of £500 and £150 legal fees chasing debts.
6. Repairs and renewals are all sundry items of less than £100.

The following information is also available regarding the capital transactions that have taken place:

1/12/15	Purchased equipment	£8,250
8/1/16	Purchased cooking equipment which is also used by Maria privately, estimated 10% private use	£3,500
25/2/16	Sold equipment	£1,500
5/4/16	Sold a short life asset	£ 500
30/9/16	Purchased a car for the business, but Maria will also use this as her family car 30% of the time Co2 emission 132g/km	£17,000

Maria had a plant pool b/f of £2,400 and a short life asset pool of £2,000.

### Task 1

Calculate Maria's adjusted trading profits, before capital allowances.

	£	£
Profit for the year ended 30/9/16		30,280
Add:		
Sales price of goods taken for own use (£1100 x 60%)	1,760	
Maria's drawings	8,000	
Vehicle lease (325 x 12) x 15%	585	
General bad debt	500	
Depreciation	<u>2,000</u>	
		<u>12,845</u>
		43,125
NB. Professional fees are all in relation to the trade Repairs and renewals does not include any capital items		

## Task 2

Calculate Maria's capital allowance claim for year ended 30 September 2016.

	General Pool £	Short life asset Pool £	Special rate Pool £	Claim £
WDV - B/fwd	2,400	2,000		
Additions:				
AIA:				
Equipment       £8250				
PU equip (£3500x90%)				
£3150				
£11,400				11,400
Car – high Co2 emission			17,000	
Subtotal	2,400	2,000	17,000	
Disposals	(1,500)	(500)		
Subtotal	900		17,000	
Balancing allowance		1,500		1,500
WDA – 18% / small bal claim	900			900
WDA – 8%			1,360	70% - 952
WDV – c/fwd	0		15,640	
Total claim				14,752

### Task 3

Download the **Self Assessment: Self-employment (full) (SA103F) form** and complete page 3 (Tax allowances for vehicles and equipment) for Maria.

#### Tax allowances for vehicles and equipment (capital allowances)

There are 'capital' tax allowances for vehicles, equipment and certain buildings used in your business (don't include the cost of these in your business expenses). Please read the 'Self-employment (full) notes' and use the examples to work out your capital allowances.

49	Annual Investment Allowance	£ 1 1 4 0 0 . 0 0	55	100% and other enhanced capital allowances - read the notes	£ . 0 0
50	Capital allowances at 18% on equipment, including cars with lower CO <sub>2</sub> emissions	£ 2 4 0 0 . 0 0	56	Allowances on sale or cessation of business use (where you have disposed of assets for less than their tax value)	£ . 0 0
51	Capital allowances at 8% on equipment, including cars with higher CO <sub>2</sub> emissions	£ 9 5 2 . 0 0	57	Total capital allowances (total of boxes 49 to 56)	£ . 0 0
52	Zero-emission goods vehicle allowance	£ . 0 0	58	Balancing charge on sale or cessation of business use (only where Business Premises Renovation Allowance has been claimed) - read the notes	£ . 0 0
Box 53 is not in use			59	Balancing charge on sales of other assets or on the cessation of business use (where you have disposed of assets for more than their tax value)	£ . 0 0
54	Business Premises Renovation Allowance (Assisted Areas only) - read the notes	£ . 0 0			

### Task 4

Maria started trading on 1 January 2014, and made the following taxable profits:

9 months to 30 September 2014	£18,360
Year ended 30 September 2015	£24,560

Calculate the taxable profit to 30 September 2016

£28,373
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## Task 5

Calculate Maria's basis periods since she commenced trading and the value of her overlap relief.

Tax year	Basis period	Profits £	£
13/14	1/1/14 – 5/4/14	18,360 x 3/9	6,120
14/15	1/1/14 – 31/12/14	18,360	
		24,560 x 3/12	24,500
15/16	30/9/15	24,560	24,560
16/17	30/9/16	28,373	28,373
Overlap	1/1/14 – 5/4/14	6,120	
	1/10/14 – 31/12/14	<u>6,140</u>	
		12,260	

Maria was considering purchasing equipment for £50,000 prior to the end of the year, but could not raise the finance in time.

## Task 6

Explain the tax situation of a further capital allowances claim of £50,000 for the year ended 30 September 2016, and the implications if she makes the purchase in October 2016, considering her intention to cease trading as a sole trader and to incorporate.

If Maria had purchased the additional equipment, she would have claimed additional annual investment allowance of £50,000 as the limit of £200,000 would not have been exceeded.

An additional £50,000 AIA claim would have resulted in a taxable trading loss of £21,627. Maria has three options to relieve the loss:

1. carry forward and offset against future trading profits of the same trade
2. offset against other income of the same tax year and / or
3. offset against trading profits and other income of the previous tax year.

As Maria is considering ceasing to trade in order to incorporate option 1 is not advisable in case she does not have enough future profits. (there are special "terminal" loss relief rules not examinable in this unit)

Assuming Maria has no other income for 16/17 the best option is therefore 3. She can carry back the loss and offset it against the 15/16 profits of £24560. This will give rise to a refund of the tax that Maria has already paid.

If Maria purchases the equipment in October 2016 and she ceases to trade in this accounting period, no allowances are available, instead all pools must be closed off and balancing allowances /charges calculated.

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