

CIOT - ATT-CTA

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Q1)

Mr Smith can appeal for a number of reasons including:

The legislation is unclear or open to different interpretation.

Mr Smith takes a different view to HMRC on the interpretation of the legislation, or Mr Smith does not accept HMRC's published view in a press release or Statement or Practice etc.

Mr Smith could also appeal if he believes HMRC have made a mistake which has not been rectified (for example, an incorrect amendment to a return or any incorrect conclusion to a closure notice after an enquiry).

Notices of appeal must be given in writing within 30 days of the amendment by HMRC. The notice is sufficient enough to give grounds for appeal.

Appeals are made to HMRC in the first instance whereby HMRC and Mr Smith try to reach an agreement.

However, in circumstances where an agreement is not reached then HMRC may offer a review. If this is not offered then Mr Smith can either ask HMRC for a review or ask the Tribunal to consider the appeal.

The review involves an officer who has no prior knowledge of the case and once the review is complete the officer states his decision. If Mr Smith still does not agree than he can ask for an appeal to be heard by trhe Tribunal within 30 days of the date of the review conclusion.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

Q2)

1st year of trade:

2018/19	£
1.12.18 to 5.4.19	
£5,000 x 4/5	4,000

Penultimate year of trade:

2019/20	
1.12.18 to 31.11.19	
£5,000	5,000

£5,000

Final Tax Year 2020/21:

2020/21	
	24,000
Less: overlap profits	(6,000)
Taxable profit	18,000

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3_

Q3)

Taxpayers are required to retain records of income and capital gains for at least 22 months after the end of the tax year to which they relate, i.e. the first anniversary of 31 January following the end of the tax year. Therefore, for his recent return to the year 31 December 2020 he won't have destroyed the evidence which means if HMRC do open up an enquiry Reece would still have sufficient evidence.

In relation to his records dated 31 December 2017, where a taxpayer is self-employed as in Reece's case if her received any income from property this needs to be retained for at least five years and ten months after the end of the tax year to which it relates. Therefore, if he received any rental income and he has destroyed the documents then this would be grounds for penalties as 5 years and 10 months have not yet passed. However, in Reece's case as he does not receive any other income or gains then he would not receive a penalty in this case.

In addition, 22 months has elapsed since December 2017 and therefore he will not receive any penalties for the information he destroyed prior to 31 December 2017.

As he has always submitted his tax returns on time then the period in which he needs to keep records is not extended.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- _4_

Q4)

On cessation of trade, we cannot argue that expenses will be incurred wholly and exclusively for the purposes of trade.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

Q5)

Anja Ltd was required to notify HMRC when their first accounting period began and must have given written notice within 3 months of the start of its first accounting period.

As HMRC did not issue a notice and Anja Ltd was required to then the notification of chargeability must be made within 12 months of the end of the accounting period. Therefore, there will be penalties for failure to notify.

As the directors have not notified due to lack of funds this suggests that the behaviour is deliberate and concealed. This means that the maximum penalty Anja Ltd could receive is 100% of the £14,000 Corporation Tax Liability not paid.

The minimum amount they would receive for an unprompted disclosure if 30% of £14,000 due = £4,200.

-----ANSWER-5-ABOVE-----

 -----ANSWER-6-BELOW-----

Answer-to-Question-_6_

Q6)

	Y/e 30.6.18	Y/e 30.6.19	Y/e 30.6.20
Trading income	2,000	2,900	1,000
Non-trading profit (LR)	3,100	Nil	2,400
Less: carry back deficit (LR)	(5,100)		
Chargeable gain	2,500	Nil	2,600
Less: current year		(2,900)	
Less: carry forward			(6,000)
TTP	<u>2,500</u>	<u>Nil</u>	<u>Nil</u>

Loss memo:

£

Total non-trading deficit (LR)	15,000
Less: carry back claim	(5,100)
Less: current year claim	(2,900)
	7,000
Less: carry forward deficit (LR)	(6,000)
<u>Unrelieved at 30 June 20</u>	<u>1,000</u>

-----ANSWER-6-ABOVE-----

 -----ANSWER-7-BELOW-----

Answer-to-Question-_7_

Q7)

£	Y/e 31.5.19	4m/e 30.9.19	Y/e 30.9.20
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Trade profit	11,000	3,000	Nil
Chargeable gains	Nil	1,000	5,000
Uk property business	7,000	2,500	8,000
Total profits	18,000	6,500	13,000
Less: CY loss			(13,000)
Less: CB loss 4m		(6,500)	
Less: CB loss 8m	(12,000)		
Less:			
Donation to charity	(1,500)	Lost	Lost
TTP	4,500	Nil	Nil

Loss memo:

£

Y/e 30.9.20	36,000
Current year loss	(13,000)
Previous year claim 4m	(6,500)
To 12m/e 31.5.19	
(£18,000 x 8/12)	(12,000)
<u>Unrelieved losses to c/f at 30.9.20</u>	<u>4,500</u>

 -----ANSWER-7-ABOVE-----

 -----ANSWER-8-BELOW-----

Answer-to-Question- _8_

Q8) £

Surplus assets

Proceeds	34,500
Less: Cost	(18,000)
Gain	16,500

Painting (w1):

Proceeds	8,000
Less:	
cost	(4,000)
Purchase costs	(600)
Gain	3,400

16,500 + 3,333	19,833
TTP @ 19%	3,768

Net proceeds available to reinvest:
 £19,833

(w1)

However, compare to 5/3rds rule:

$$5/3 \times (8,000 - 6,000) = \text{£}3333$$

Therefore, lower of two gains is £3,333.

No indexation allowance as bought and sold after 31 Dec 2017.

No AEA for companies.

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9_

Q9)

Invoice 1:

Professional charges would be deemed as providing a service. As the invoice is issued by a solicitor this would be deemed as a business to business transaction. Therefore, as the place of supply is in the UK and the place of supply rules for B2B state that it is where the customer belongs then there would be UK VAT charged. Therefore, the VAT can be recovered in respect of the professional charges. In addition, as the VAT invoice holds all of the correct information such as a sequential identifying invoice number, customer name and address, a description of the goods and the unit price, then VAT can be recovered.

Invoice 2:

The second invoice is a business to consumer transaction. The place of supply for this transaction is where the supplier belongs. As the supplier is based in Worcester in the UK then VAT could be recovered. However, also need to look at the VAT invoice. There is no customer name and address, there is also no quantity of goods stated and there is no date of supply. Therefore, the VAT would not be recoverable.

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question-_10_
Q10)

Materials = £350 plus VAT = 20% = £70. Total input = £420

Fuel =

Other goods = £1,000 plus VAT

£1,000 x 10% = £100 plus VAT = £20 = £120

Total VAT which can be claimed =

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question-_11_

Q11)

Permanent differences and timing difference are accounting terms which come under deferred taxation.

This is important when completing an FRS 102.

Permanent difference is something that will always have to be deducted in an FRS 102 reconciliation due to not being allowable expenses on a P&L account.

Permanent timings means that due to the timing of when for example a capital item is bought capital allowances can be claimed so an adjustment needs to be made on the P&L account.

Examples of a permanent differences would be disallowed expenses, business entertainment and dividends received.

An example of timing differences include capital allowances and depreciation.

-----ANSWER-11-ABOVE-----

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Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**

 -----ANSWER-14-BELOW-----

Answer-to-Question-_14_

1)

Accounting period ended 31/12/2020

	£
Net loss per accounts	(7,400)
Add back:	
Private expenditure W1	4,250
Restricted car expenses W2	935
	(2,215)
Selling price of goods for own use	300
Deduct:	
Items not included in P&L N6	(3,050)
Home as office W3	(150)
Tax adjusted loss before CAs	<u>(5,115)</u>
CAs w4	(1,458)
Tax adjusted loss	<u>(6,573)</u>

W1 - Private expenditure

Salary 100 x 15 1,500

Telephone 1,400 x 50% 700

Advertising 2,050

bearing

4,250

Nothing stated about these
a clear advert - gifts

W2 - Car costs

275 x 10 2,750

Disallow 15% as high emission (413)

2,337

Restrict for 40% business use 935 to add back

W3 - home as office

flat rate 10 x 15 = 150

W4 - CAs

	Main pool
WDV bf	3,800
Additions:	
Computer equipment	7,000
	10,800
WDA@ 18% x 75%	(1,458)
c/f	9,342

Notes:

- 1 - £300 added back as selling price of good for own use
- 2- wages added back as these are for the trader
- 3- telephone add back private use elemtn of 50%
- 4 - advertising bears no clear advert, so treat as gift and add back
- 4- car is high emission so restrict by 15%, also restrict for private use, and add back.
- 6 - all incurred within the 7 years prior to trade commencing, so considered for pre-trading expenses. revenue in nature and wholly and exclusive for business purposes. included as deduction.

2)

2019/20

Tax adjusted trading loss $6,573/15 \times 6$ (1,315)

2020/21

Tax adjusted trading loss $6,573/15 \times 9$ (3,944)

Earliest year in which losses can be relived 2021/22

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

1)

A tax return will be required for the 12 months ended 30 April 2020, due for filing 12 months from end of AP, i.e 30 April 2021

A tax return will be required for the 2 months ended 30 June 2020, due for filing 12 months from end of AP, i.e. 30 June 2021.

2)

2me 30 June 2020	£
Net loss per accounts	(326,000)
Add back:	
Entertaining	800
Depreciation	26,000
Adjusted trading loss	(299,200)

Notes:

1)

2)

3) Electric car so low emission, do not add back. Ltd co so no adj. for private use.

Summaer party is for staff, so does not need to be added back.

Legal costs to terminate a lease - allowable provided it's a short lease

Golf club membership - assessable as director's benefit on P11D

Entertaining supplies - add back.

Depreciation - add back.

Charitable donations - allowable is wholly and exclusively for charity. Do not add back.

Capital Allowances:

	General pool
wdv b/f	67,000
Additions	
Welder	7,000
Disposal of P&M	
Lower of:	
- cost	
- proceeds (105,000)	(105,000)
Balancing adj	0

3) Sale of factory

Proceeds Sept 2020	985,000
Less: enhancement	(80,000)
	905,000
Less: cost	(175,000)
Unindexed gain	730,000
Less: indexation allowance	
March 2010 to Dec 2017	
$(278.1 - 220.7) / 220.7 \times 175,000$	(45,514)
Chargeable gain	<u>684,486</u>

3)

As the company has ceased to trade, the trading loss of the final 12 months to 30 June 2020 can be carried back against the total profits of the 36 months ending immediately before the loss making period.

i.e. losses for the period from 1 July 2019 to 30 June 2020
can be carried back 36 months from the 30 June 2019.

These are terminal losses.

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-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

1)

Each partner owns a fractional share of Treasury House and the shares in line with the PSR of 25:30:45.

The proceeds from the disposals are calculated accordingly.

On disposal, each partner is deemed to have made a disposal of that fractional share.

As the office has passed to a partner, the chargeable gain of this disposal is calculated as though all partners have disposed of their fractional shares at market value.

Gains accruing to the partners giving up the asset are immediately chargeable to CGT.

Neil's gain is a notional gain and is not immediately chargeable to CGT.

He is deemed to have bought the asset at market value, less his notional gain.

The gains would be reported on the individual's tax returns, not through the Partnership return.

2) Ellen

BADR applies when a partner disposes of the whole or part of their business.

The sale of Bridge House is an associated disposal as this is a material disposal of a business asset.

It would qualify for BADR as it was in use by the business for at least 2 years.

It was also owned for 3 years prior to the disposal in 2020.

Ellen owned 5% or more of the profits for 3 of the 8 years prior to disposal.

She would need to restrict any relief as she charged rent to the partnership for use of the asset.

Her taxable Capital Gains (after use of her AE) would be charged at 10%.

-----ANSWER-16-ABOVE-----

With regards to your other queries, in terms of the standards which a company could expect contractually from an adviser in the absence of an engagement letter, it would usually be expected that the engagement letter contain a provision in the scope of services advising you that, unless other stated, any additional work would be carried out based on the hourly rate of the personnel involved.

It would be expected that this would be conveyed to you formally by the adviser.

It would also be expected that, where no fee agreement is in place, you were made aware of the work in progress and the associated costs involved at various intervals during the process.

The above applies if an 'ad hoc' provision is included in the initial engagement letter.

If it is not, I would expect that an adviser should issue a new engagement letter which states the additional scope of work to be undertaken.

In terms of the complaints procedure, if your previous adviser is ATT qualified, they should provide all clients with the name of a person whom can be contacted to receive complaints about the services provided.

They should advise you of your right to also make a complaint to their professional body.

It's in your previous adviser's best interest to conduct a full investigation into your complaint in a prompt and courteous manner.

If they find the complaint to be justified, either wholly or partially, they should take steps to ensure that the complaint is resolved as soon as possible.

I hope that the above has been of use to you. Please do not hesitate to contact me should you have any further queries.

Yours sincerely

An Adviser