

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 2 BUSINESS TAXATION

**November 2021**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

**PART I**

1. Elsa is a sole trader and her tax return for 2019/20 was filed on 4 March 2021 resulting in overall tax and National Insurance liabilities of £1,900 for that year, compared with a liability of £1,200 for the previous year. All the tax and National Insurance Contributions due were paid on 6 March 2021. HMRC have raised interest charges and penalties.

**Briefly explain the following:**

1) **The due date for filing the tax return and paying the liabilities arising.** (2)

2) **The precise period during which interest charges may be charged and on which liabilities.** (1)

3) **The amount of any penalties that may be charged.** (1)

Total (4)

2. Johan is starting a new business buying and selling goods. He has his own car already and wants to understand how he obtains tax relief on the costs associated with his car.

**Briefly explain how he might obtain tax relief relating to the costs of using his car for the business.** (4)

3. Sally has been trading as a sole trader for many years preparing accounts to 30 September. To suit her business better, she recently changed her accounting date to 31 March and prepared accounts for the 18-month period ended 31 March 2021.

**Explain how to identify the year of change and state the basis period for her business for the year of change.** (2)

4. Peter is a sole trader preparing accounts to 31 December each year. On 1 July 2020 Peter purchased a new office building from a builder for £480,000. Peter started using the offices on 1 August 2020.

The cost comprised:

	£
Land	180,000
Building (including integral features of £40,000)	<u>300,000</u>
	<u>480,000</u>

**Calculate the structures and buildings allowances available to Peter for the years ended 31 December 2020 and 2021.** (3)

5. Dragspex Ltd used to prepare its accounts to 31 December annually. From 1 January 2020 it shortened its next accounting period to end on 30 September 2020. Anticipated taxable total profits for this period were £1,350,000. Dragspex Ltd is a large company and is required to pay its Corporation Tax by instalments.

**Calculate the Corporation Tax instalments due for the accounting period ended 30 September 2020 and state the due dates for payment.** (4)

6. HMRC opened an enquiry into the Corporation Tax return of Prgyx Ltd for the 12-month accounting period ended 31 March 2019 within the relevant time limit. The enquiry ended on 25 October 2020 and there was additional Corporation Tax to pay of £10,000. The directors paid this on 31 October 2020. The additional tax has arisen because the directors had deliberately omitted all foreign sales from their turnover. They did have full records and cooperated fully with the enquiry. The company does not pay Corporation Tax in instalments.

1) Explain, with supporting calculations, the penalty that may be payable by Prgyx Ltd in relation to this omission. (2)

2) Calculate the interest charge arising. (1)

Total (3)

7. Almunic Ltd's draft accounts for the year ended 31 January 2021 show the following:

	£	£
Turnover		320,000
Cost of sales		<u>(130,000)</u>
Gross profit		190,000
Salaries	86,000	
Rent, rates and insurance (Note 1)	4,000	
Travel costs	8,000	
Depreciation	6,000	
Dividend paid	<u>31,000</u>	
		<u>(135,000)</u>
Net profit		<u><u>£55,000</u></u>

Note 1: This figure comprises:

	£
Rent receivable for warehouse no longer used in trade	(12,000)
Rates payable for trading property	10,000
Rates & insurance payable for warehouse	3,400
Other insurance payable	<u>2,600</u>
	<u><u>4,000</u></u>

Capital allowances of £3,000 are available.

**Calculate Almunic Ltd's taxable total profits for the year ended 31 January 2021. Show your workings clearly.** (3)

8. Blanzes Ltd bought the following assets during its year ended on 31 March 2021:

<u>Date of purchase</u>	<u>Description</u>	£
16 July 2020	New machinery	225,000
13 August 2020	Air cooling system in factory	250,000
20 October 2020	New electric car used by sales director	35,000

None of these assets is expected to have a useful life longer than 25 years. The sales director will use the car 70% for business purposes.

At 1 April 2020 the tax written down value of the general pool was £196,000 and of the special rate pool was £33,000.

**Calculate the maximum capital allowances that may be claimed by Blanzes Ltd for the accounting period ended 31 March 2021, showing clearly the type of allowance claimed.** (3)

9. Brian owned the factory used by his trading company. On 31 March 2021 the factory was destroyed by a fire.

Jack's farm had one field that was separated from the rest of his land. He exchanged that field for a field owned by a neighbouring farmer.

**Explain the Capital Gains Tax implications of these transactions.** (2)

10. Stan sold 2,000 ordinary shares in his personal trading company, Stanczz Ltd, to his brother in 2020/21 when they were valued at £30 per share. Stan's brother paid £50,000 for the shares. Stanczz Ltd has issued share capital of 20,000 ordinary shares of £1, all of which were owned by Stan. Stan originally subscribed for these 20,000 ordinary shares in April 2002 at a price of £1.20 per share.

**1) Calculate the chargeable gain arising assuming no reliefs are claimed.** (1)

**2) Recalculate the gain, showing the amount of any relevant relief claimed. State the time limit for claiming the relief and who must make the claim.** (2)

Total (3)

11. Joe is registered for VAT as a sole trader in the UK. In December 2020 he paid for some marketing advice from an Australian company to help expand his business in Australia.

**State the consequences of this transaction for VAT purposes.** (3)

12. Anna is a sole trader and her business is registered for VAT. Her turnover has fallen after she lost a large contract. She was regularly billing £10,000 per month, but this dropped to £6,000 per month from 1 February 2021 (both figures are exclusive of VAT). She continued to trade and has recently received an offer to sell her business that she is considering.

**Briefly explain whether Anna should deregister for VAT as a result of either of these two matters. Include any relevant time limits for notifying HMRC.** (3)

13. Ivan, age 50, is a sole trader. His tax-adjusted trading profits/ losses for the two years ended 31 March 2021 were as follows:

	£
Year to 31 March 2020	(20,000)
Year to 31 March 2021	80,000

**Calculate the National Insurance contributions Ivan is required to pay for 2019/20 and 2020/21.** (3)

## PART II

14. Photography was Sharon's hobby for many years. On 1 October 2019, she left her job and became a self-employed photographer. She has given you the following profit and loss account for the 15-month period ended 31 December 2020:

Sales	£	£
		25,000
Purchases	8,000	
Premises costs for shop (all allowable)	5,800	
Wages	7,000	
Telephone	1,400	
Advertising	6,000	
Car expenses	<u>4,200</u>	
		<u>(32,400)</u>
Net loss		<u>(7,400)</u>

You are also given the following information:

- Purchases include £300 for raw materials used when she photographed her sister's wedding. She made no charge to her sister.
- Wages include £100 per month drawn by Sharon.
- Telephone is the monthly payments for Sharon's mobile phone contract. The phone is used 50% for business purposes.
- Advertising includes:
 

	£
Hampers as gifts for wedding venues at Christmas	1,250
Food and drink for customers at exhibitions	800
- Car expenses relate to fuel and repair costs for a car bought on 1 March 2020, on hire purchase. She has to make 48 repayments of £275 per month. If she had bought the car outright it would have cost £10,800. 10 payments were made during the period. The CO<sub>2</sub> emissions of the car are 175 g/km and it was used 60% for business purposes by Sharon. The profit and loss account does not include any entries for the cost or any hire purchase repayments.
- Prior to 1 October 2019, Sharon paid the following amounts which have not been included in the profit and loss account:

<u>Date</u>		£
15 September 2019	Legal costs for premises lease	500
12 September 2019	Two years hosting costs for the business website starting 1 January 2020	750
1 September 2019	Course to update skills for wedding photography	1,800

*Continued*

*Continuation*

- 7) Sharon estimates that she spent about 40 hours per month working at home.
- 8) Before starting self-employment, Sharon spent £7,500 on photography equipment for her own use, which was introduced into the business on commencement. The value of the equipment on 1 October 2019 was £3,800. The equipment is used 75% for business purposes.
- 9) In October 2020, Sharon purchased computer and printing equipment for the business totalling £7,000.

**Requirements:**

- 1) Calculate the tax adjusted trading loss for the 15 months ended 31 December 2020, using the accruals basis. Briefly explain your treatment of the expenditure in item 6) above. (15)
- 2) Calculate the tax adjusted trading loss for 2019/20 and 2020/21 and identify the earliest tax years in which the losses can be relieved. (5)

Total (20)

15. Eberlet Ltd had manufactured bicycles for many years, preparing accounts to 30 April annually. The latest set of accounts were prepared for the year ended 30 April 2021.

However, the company had suffered declining profits and ceased to trade on 30 June 2020. The following extract from the management accounts shows the draft profit and loss account for the two months ended 30 June 2020:

	£	£
Sales		565,000
Cost of sales		<u>(395,000)</u>
		170,000
<u>Expenses</u>		
Wages	175,000	
Premises costs (all allowable)	135,000	
Overheads	<u>186,000</u>	
		<u>(496,000)</u>
Loss before taxation		<u>(326,000)</u>

You are also given the following information:

- 1) Cost of sales includes closing stock of £95,000, valued at cost. It is estimated that the stock will be sold at cost with estimated further selling costs of 10% of cost.
- 2) Wages include termination payments of £65,000 for employees made redundant. The statutory redundancy entitlements totalled £15,000.
- 3) Overheads include the following:

	£
Lease of electric car for sales manager (25% business use)	2,800
Summer party for staff	2,300
Legal costs to terminate a lease	3,600
Golf club membership for directors	1,850
Entertaining suppliers	800
Depreciation	26,000
Charitable donations	4,000

- 4) The company bought a new welder on 1 May 2020 at a cost of £7,000. The plant and machinery held at 30 June 2020 was sold for £105,000. There were no gains on any of the assets.
- 5) The tax written down value of the general pool at 1 May 2020 was £67,000.
- 6) The company sold a factory in September 2020 for £985,000. The factory was bought for £175,000 on 1 March 2010 and an extension costing £80,000 was added in March 2018.
- 7) The company made a small trading loss for the year ended 30 April 2020, but prior to this had made profits.

*Continued*



*Continuation*

**Requirements:**

- 1) Explain the accounting periods for the two years to 30 April 2021 for which Eberlet Ltd will prepare Corporation Tax returns and the filing dates for the returns. (4)
- 2) Calculate the adjusted trading loss for the period ended 30 June 2020. Show your treatment of items in 1) to 3) above. (8)
- 3) Calculate the gain chargeable to Corporation Tax on the sale of the factory. (2)
- 4) Explain the loss relief claims that can be made for the trading losses for the year ended 30 April 2020 and the period ended 30 June 2020. Ignore the temporary loss relief changes introduced by Finance Act 2021. (6)

Total (20)

16. Neil, Ellen and Sunil were partners in an accountancy practice sharing trading and capital profits and losses 25:30:45. The partnership has been trading for many years, preparing accounts to 31 March annually.

On 27 April 2020, the partnership sold 350 shares in a listed company, realising a substantial gain.

On 1 August 2020, Treasury House, the partnership office, was transferred into Neil's sole ownership. The market value on transfer was higher than the original cost in March 2010.

On 2 August 2020, Ellen retired from the partnership.

Ellen personally owned a property, Bridge House, which was rented to the partnership at half the market rent for eight years. The partnership moved out of the property on 1 August 2020 and Ellen sold the property on 30 September 2020 realising a gain of £245,000.

Ellen has made no previous claims qualifying for business asset disposal relief and is a higher rate taxpayer for 2020/21.

**Requirements:**

- 1) **Explain how the capital gains on the disposal of the shares and Treasury House will be calculated and reported for tax purposes. Detailed calculations are not required.** (4)
- 2) **Explain whether Ellen can claim business asset disposal relief on gains made in 2020/21 and the rates of Capital Gains Tax she will pay.** (6)

Total (10)

17. Sisdane Ltd approached your firm to act on its behalf. The company has been trading for a number of years as a retailer of electrical equipment preparing accounts to 31 July.

The accounts and Corporation Tax return for the year ended 31 July 2020 were filed in October 2020. HMRC opened an enquiry into the return, which was resolved in July 2021 with an additional tax liability for the company of £45,000 which was paid in August 2021. The original tax estimate for the year ended 31 July 2020 was £245,000 which the company paid on 25 April 2021. The draft tax computations for the year ended 31 July 2021 show a liability of £276,000.

The managing director, Mr Frogatt, wants to understand the impact of the tax liability on his accounts. He is also angry about the unexpected liability and the cost and level of work carried out by his previous adviser. A letter of engagement was issued for other company work but not for the advice which was the cause of the liability. Mr Frogatt believes the adviser is ATT qualified.

**Requirements:**

**Write a letter to Mr Frogatt explaining:**

- 1) **The journals that will be posted in the accounts to record the additional tax liability for the year ended 31 July 2020 and the estimated 2021 Corporation Tax liability. Identify which entries relate to the Profit and Loss account and which to the Balance Sheet. Ignore interest and penalties.** (3)
- 2) **What standards the company could expect contractually from an adviser in the absence of a letter of engagement.** (3)
- 3) **What procedures the previous adviser should have in place in relation to complaints.** (4)

Total (10)