November 2021 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

1. 1)
   The tax return was due to be filed by 31 January 2021. **(1/2)**

   The balancing payment for 2019/20 was due by 31 January 2021 **(1/2)** along with the first payment on account for 2020/21. **(1/2)** Two payments on account should have been paid on 31 January 2020 **(1/2)** and 31 July 2020 **(1/2).**

   2)
   Interest may be charged from 31 January 2021 to 6 March 2021 **(1/2)** on the balancing payment and on the first payment on account for 2020/21, including Class 4 NICs. **(1/2)** No interest is payable on late paid Class 2 NICs. **(1/2)**

   3)
   A late filing penalty of £100 will apply. **(1/2)** In addition, a late payment penalty may be charged of 5% of the balancing payment due ie £35 (5% ×(£1,900 - £1,200)). **(1/2)**

   Max (4)

2. Johan has two options for claiming for the costs associated with his car:

   A proportion of all expenses

   He needs to maintain records to establish the proportion of use of the car that is for business purposes. **(1/2)** He can then deduct that proportion of car expenses in his accounts for tax purposes. **(1/2)** In addition, he can claim capital allowances in relation to his car, based on the value at the time he introduces it to the business. **(1/2)** These will also be restricted to the business use of the vehicle. **(1/2)**

   Alternatively, he could use simplified expenses.

   Johan can claim a fixed amount of 45p per mile **(1/2)** for each business mile from his accounting profit for the first 10,000 business miles in a year. **(1/2)** After that only 25p per business mile may be claimed. **(1/2)** In order to do so, he needs to keep a log showing each business journey. **(1/2)** In this case he cannot claim any capital allowances. **(1/2)**

   With both methods he can deduct any other costs that are directly related to his business journeys, **(1/2)** for example tolls and parking charges.

   Once he has used one method for a particular vehicle, he needs to continue with that method until he changes vehicles. **(1/2)**

   [marks will be awarded for other relevant points]

   Max (4)

3. The year of change is the earlier of: **(1/2)**

   The first tax year when accounts are not drawn up to the old date (30 Sept 2020) – 2020/21 **(1/2)** or:

   The first time accounts are drawn up to the new date (31 March 2021) – 2020/21 **(1/2)**

   So 2020/21 is the year of change.

   Her basis period for 2020/21 is the 18-month period to 31 March 2021. **(1/2)**

   (2)

4. Qualifying cost:

	£	
Land	-	(1/2)
Building (excluding integral features of £40,000)	260,000	(1/2)
Integral features	-	(1/2)
	260,000	

Year ended 31 December 2020

Allowances from first use so £260,000 × 3% × 5/12 = £3,250 **(1)**

Year ended 31 December 2021

£260,000 × 3% = £7,800 **(1/2)**

(3)

5. CT due for the period to 30 September 2020 is £1,350,000 x 19% = £256,500. **(1/2)**

First calculate how many instalments are payable:

1st instalment is due on the 14th day of month 7 – 14 July 2020. **(1/2)**

Next instalment is due 3 months later – 14 October 2020 **(1/2)**

Final instalment is 3 months and 14 days after the end of the accounting period – 14 January 2021. **(1)**

Each instalment is calculated as:

£256,500 multiplied by 3/9 **(1)** = £85,500 **(1/2)** **(4)**

6. 1)
A penalty may be charged in relation to the potential lost revenue. **(1/2)**

This error was deliberate but not concealed. **(1/2)**

The maximum penalty is 70% x £10,000 = £7,000. **(1/2)**

The minimum penalty with prompted disclosure is 35% x £10,000 = £3,500. **(1/2)**

2)
Tax for the year to 31 March 2019 was due by 1 January 2020.

[mark will be given where calculation makes it obvious correct due date used]

Interest will be charged from 1 January 2020 until 31 October 2020 (10 months). **(1/2)**

10/12 x £10,000 x 2.6% = £217. **(1/2)**

Total (3)

7.

	£	£	
Profit per accounts		55,000	
Add:			
Dividend paid	31,000		(1/2)
Depreciation	6,000		(1/2)
Rates & insurance for warehouse	3,400		(1/2)
		40,400	
Less:			
Rent for warehouse	12,000		(1/2)
Capital allowances	3,000		(1/2)
		(15,000)	
Taxable trading profits		80,400	
Property income			
rent	12,000		
rates	(3,400)		
		8,600	(1/2)
Taxable total profits		£89,000	

Total (3)

8.

		Available for AIA/ FYA (£)	General Pool (£)	Special pool (£)	Allowances claimed (£)	
TWDV b/f			196,000	33,000		
additions						
	Machinery	225,000				
	Air cooling system	250,000				
AIA		475,000			475,000	(1)
FYA	Electric car	35,000			35,000	(1)
WDA	18%		(35,280)		35,280	(1/2)
	6%			(1,980)	1,980	(1/2)
WDV c/f			£160,720	£31,020		
Total allowances claimed					£547,260	

Total (3)

9. Both the factory and the field are chargeable assets **(1/2)** for capital gains tax purposes.

   In Brian's case, the loss or destruction of an asset is treated as a disposal. **(1/2)**

   Jack is treated as disposing of his field at market value **(1/2)**. He has acquired another business asset and may be able to claim rollover relief. **(1/2)** **(2)**

10. 1)

		£	
Deemed proceeds	(£30 x 2,000)	60,000	**(1/2)**
Cost	(£1.20 x 2,000)	(2,400)	**(1/2)**
Gain		£57,600	

2)

Assuming gift relief is claimed

		£	
Deemed proceeds		60,000	
Cost	(£1.20 x 2,000)	(2,400)	
Gain before relief		57,600	
Gift relief (s.165 TCGA 1992)		(10,000)	**(1)**
Gain	(£50,000 - £2,400)	£47,600	

Gift relief must be claimed by 5 April 2025, 4 years from the end of the relevant year of assessment. **(1/2)** A joint claim must be made by Stan and his brother. **(1/2)**

(3)

11. This is a supply of services **(1/2)** and is a B2B transaction. **(1/2)** Because Joe (the customer) is resident in the UK, while the supplier is resident in Australia, this counts as a UK supply for VAT purposes. **(1/2)** Joe needs to account for the output tax **(1/2)** as a reverse charge. **(1/2)**. In addition, he can reclaim this as input VAT. **(1/2)** **(3)**

12. Voluntary deregistration can take place when a business is expected to make taxable supplies of less than £83,000 in the next 12 months. **(1/2)** Anna could apply at any time from 1 February 2021. **(1/2)** The deregistration will take effect from the date the request is made **(1/2)** or an agreed later date. **(1/2)**

    If, instead, she chooses to sell her business, there must be compulsory deregistration. **(1/2)**

    HMRC must be notified within 30 days of the sale of her business **(1/2)** and deregistration would take place from the date of the sale. **(1/2)** **Max (3)**

13. 2019/20

    No National Insurance contributions due as he incurred a loss. **(1/2)**

    2020/21

    He is required to pay Class 2 NI of 52 x £3.05 = £159 **(1/2)**

    In addition, he is required to pay Class 4 NI as follows:

	£	
Profits year to 31 March 2021	80,000	
Loss year to 31 March 2020	(20,000)	**(1)**
Profits liable to Class 4 NI	60,000	

	£	
£50,000 – £9,500 @9%	3,645	**(1/2)**
£10,000 @2%	200	**(1/2)**
Total Class 4 due	3,845	

(3)

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Business Taxation

Part II Suggested Answers

14. **Sharon**

1) Tax adjusted loss

		£	£	
Loss per accounts			(7,400)	
Adjustments:				
Raw materials for self	(at cost)		300	(½)
Drawings	(15 x £100)		1,500	(½)
Private use of phone	(50%)		700	(½)
Hampers for wedding venues			1,250	(½)
Entertaining			800	(½)
Car expenses	(40%)		1,680	(½)
Hire purchase interest	W1		(500)	(½)
Less private use	(40%)		200	(½)
Pre-trading expenses:				
Legal costs	Not allowed: capital	-		(1)
Hosting costs	(12/24 x £750)	375		(1)
Course to update skills	Allowed as update	1,800	(2,175)	(1)
Use of home	(15 x £10)		(150)	(1)
Adjusted loss			(3,795)	
Capital allowances	W2		(8,127)	(½)
Tax adjusted loss			(11,922)	

Workings

1. Hire purchase interest

		£	
Total hire purchase repayments	48 x £275	13,200	
Cash cost of car		(10,800)	
Interest		2,400	(1)
Monthly interest	2,400/ 48	50	(½)
Interest for 10 months	10 x £50	500	(½)

2. Capital allowances	**General pool**	**Camera equipment**	**Car**	**PU**	**Allowances**	
Not eligible for AIA:						
Camera equipment (market value)		3,800				(1)
Car			10,800			(½)
Computer equipment	7,000					
AIA	(7,000)				7,000	(½)
WDA (18% x 15/12)		(855)		214 (25%)	641	(1½)
WDA (6% x 15/12)			(810)	324 (40%)	486	(1)
Total allowances					8,127	
WDA c/f		2,945	9,990			

(15)

2) Loss relief

Loss per tax year

2019/20	1 October 2019 to 5 April 2020	6/15 x 11,922	(4,769)	**(1)**
2020/21	1 January 2020 to 31 December 2020	12/15 x 11,922	(9,538)	**(1)**
	Less already recognised	3/15 x 11,922	2,384	**(1)**
			(7,154)	

Earliest year for loss relief

2016/17	Loss for 2019/20	(4,769)	**(1)**
2017/18	Loss for 2020/21	(7,154)	**(1)**

(5)

Total (20)

15. **Eberlet Ltd**

1) For the year ended 30 April 2020, the company's accounting period is 12 months to its accounting date: 30 April **(½)** and the Corporation Tax return needed to be filed 12 months later: 30 April 2021. **(½)**. For the year ended 30 April 2021, the company has a 2 month accounting period to the date of cessation of trading: 30 June 2020 **(1)**. The next accounting period runs to the end of the period of account: 30 April 2021 **(1)**, Two returns will be required for the year ended 30 April 2021 **(1)**, which will both be due on 30 April 2022 **(1)**.

Max (4)

2) Adjusted trading loss

		£	
Loss per accounts		(326,000)	
Correction of stock to net realisable value	(10% x £95,000)	(9,500)	**(1)**
Additional termination payments	£65,000 – 4 x £15,000	5,000	**(1)**
Lease payments for sales manager	No private use adjustment – benefit or lease restriction as electric	-	**(1)**
Summer party for staff	Allowable	-	**(½)**
Legal costs re lease termination	Disallowed as capital	3,600	**(½)**
Golf club memberships	Allowable - remuneration	-	**(½)**
Entertaining		800	**(½)**
Depreciation		26,000	**(½)**
Donations		4,000	**(½)**
		(296,100)	
Capital allowances	Working	31,000	**(½)**
Tax adjusted loss		(265,100)	
			(6½)

Working
Capital allowances

		General pool	
		£	
WDV b/f		67,000	
Addition			
Welder	(No AIA)	7,000	**(½)**
		74,000	
Market value		(105,000)	**(½)**
Balancing charge		31,000	**(½)**
			(1½)
			(8)

3) Gain on factory

		£	£	
Sales proceeds			985,000	
Cost		175,000		
Extension		80,000	(255,000)	
Gross gain			730,000	**(½)**
Indexation allowance	(Dec 2017 – Mar 2010)/Mar 10			
	(278.1 – 220.7)/220.7			
	0.260 x 175,000		(45,500)	**(1½)**
Gain chargeable to Corporation Tax			684,500	
				(2)

4) The loss for the year ended 30 April 2020 can be set against total profits **(½)** for the year ended 30 April 2020 **(½)** (relief for charitable donations may be lost) **(½)**. After this claim has been made, the loss can be carried back and set against total profits for the 12 months ended 30 April 2019 **(½)**. The same claims can be made for the period ended 30 June 2020 **(½)**. The losses cannot be carried forward against the capital gain in the period ended 30 April 2021, as the company is not trading in the period **(1)**. The loss to 30 June 2020 and 10/12 of the loss for the year ended 30 April 2020 **(½)** can be included in a terminal loss claim **(½)**. The losses can be carried back against total profits **(½)** of the 3 years **(½)** preceding the start of the loss making period: year ended 30 April 2018 **(½)** for the loss to 30 June 2020 and year ended 30 April 2017 for the loss relating to the year ended 30 April 2020 **(½)**. The claims are made against profits for later years first **(½)**. Max (6)

16. **Partnership gains**

1) Disposals of partnership assets are not assessed on the partnership but on the partners individually **(½).**

   The sales proceeds of the shares are allocated to the partners in their capital asset sharing ratio, as is the cost **(½)**.

   The transfer of Treasury House gives rise to a gain, with sale proceeds equal to market value, being taxed on Ellen and Sunil **(½)** and a notional gain on Neil **(1)**. The notional gain on Neil is calculated as if he had sold his share of the property **(½)**. He is then deemed to have acquired the property at market value less the notional gain **(1)**.

   Details of the disposals and the partners' shares are included on the partnership return. **(½)** and gains are reported on their personal self assessment returns by 31 January 2022 **(½)**.

   Max (4)

2) Ellen was a partner for more than 2 years **(½)** and retired from the partnership. She has therefore made a material disposal of a business asset (the whole of her interest in the partnership) **(½)**. As such she is eligible for business asset disposal relief **(½)**. She can claim business asset disposal relief on the transfer of Treasury House as it was used for business purposes by the partnership **(½)** and had been owned for more than 2 years prior to the disposal **(½)**. She will pay tax at 10% **(½)**.

   Ellen can also make a claim for business asset disposal relief on the disposal of Bridge House as an "associated disposal" **(½)** as the property had been owned for more than 3 years **(½)** and used in the partnership business for more than 2 years**(½)**. The relief will be restricted by half because the rent charged was half the market rent **(1)**. She will pay tax at 10% on half the gain and 20% on the rest **(½).**

   She cannot claim business asset disposal relief on the sale of the shares **(½)** as they are not a relevant business asset: they were not used for the purposes of the business. The gain will be taxed at 20% **(½)** after deducting the annual exempt amount **(½).**

   Max (6)

17. **Sisdane Ltd**

Adviser Ltd
High Street
Anytown

Mr Frogatt
Sisdane Ltd
Front Street
Anytown

Format (1)

Dear Mr Frogatt

Corporation Tax

Further to our recent meeting, I am writing in response to the queries you raised.

Corporation Tax adjustments

The estimate of the Corporation Tax due for 2021 will be included in the accounts for 31 July 2021:

Debit	Corporation Tax - Profit and Loss	276,000 **(½)**
Credit	Corporation Tax creditor	276,000 **(½)**

A provision will also be made in the accounts to 31 July 2021 **(½)** for the additional creditor:

Debit	Corporation Tax - Profit and Loss	45,000 **(½)**	
Credit	Corporation Tax creditor	45,000 **(½)**	Max (3)

Legal position re previous adviser

The relationship between an adviser and their client is usually governed by the letter of engagement. As you did not have such a letter for the area on which advice was given, the Supply of Goods and Services Act 1982 implies contract terms between you and your adviser **(1)**.

Your adviser was required to carry out their work with reasonable care and skill and to a proper standard of workmanship **(1)**.

If no time limit was agreed, then the work should have been carried out within a reasonable period of time **(1)**.

The fees charged for the work done should have been agreed between you, but if not then they should be reasonable **(1)**. Max (3)

Procedures for complaints

The adviser should have let you know when they first started acting for you of the name and status of the person who should be contacted in the event of a complaint: this would have been in a standard letter of engagement **(1)**.

If you choose to contact the adviser to complain, then they should acknowledge your complaint promptly in writing **(1)**.

Your complaint should then be fully investigated by a person with the required seniority and competence **(½)**, preferably someone who was not involved in giving you advice **(½)**. You should be told about the progress of this investigation **(½)**, which should be carried out thoroughly and without delay **(½).**

If your complaint is justified, then your adviser should take appropriate action **(1)**.

I hope that the information I have provided answers your questions.

Yours sincerely

A N Adviser

Max (4)

Total (10)