

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Janine is a VAT-registered trader making taxable supplies. For the quarter ended 31 March 2024, her costs were:

	£
Goods for resale	9,000 inclusive of VAT at 20%
Gross wage for assistant	2,000
Car with 70% business, 30% private use	20,000 plus VAT at 20%
Computer with 100% business use	500 plus VAT at 20%

Calculate the input VAT recoverable by Janine for the quarter ended 31 March 2024. (3)

2. Angeka Ltd is a large company and must pay Corporation Tax by instalments.

On 1 March 2024 a new finance director, Majo, joined the company. She discovered that the first two instalments for the year ended 31 December 2023 had already been paid in full, based on the final Corporation Tax liability for the year.

On 14 March 2024 Majo ensured Angeka Ltd paid the final two instalments of £120,000 each. These were the correct amounts based on the final Corporation Tax liability.

Calculate, with brief explanations, the interest arising on the final two Corporation Tax instalments for the year ended 31 December 2023. (4)

3. Shyll Ltd is a trading company. During the year ended 31 December 2023, Shyll Ltd's costs included:

	£
Interest payable on loan to purchase property which was let out	20,000
Legal fees on the sale of a factory used in the trade	15,000
Recruitment fees for engineering staff	3,000
Repairs to manufacturing machinery	1,000

State against which category of income or gain each cost is deducted when calculating Shyll Ltd's taxable total profits. (2)

4. Kindri Ltd had taxable total profits of £175,000 for the year ended 31 March 2024. During the year it received dividends of £18,000 from unconnected companies.

Calculate Kindri Ltd's Corporation Tax liability for the year ended 31 March 2024. (3)

5. Elethant Ltd prepares accounts to 31 December and has trading profits exceeding £600,000 each year.

For the year ended 31 December 2022, it had an overseas property loss of £30,000. For previous years and for the year ended 31 December 2023, Elethant Ltd had overseas property income of £50,000.

For the year ended 31 December 2023, Elethant Ltd had a non-trading loan relationship (NTLR) deficit of £18,000. It has no NTLR income in any year.

Elethant Ltd's policy is to use losses and deficits as early as possible.

Explain how Elethant Ltd should use the loss of 2022 and the deficit of 2023 under the company policy, stating the dates by which any claims must be made. (3)

6. Sunidee Ltd is a manufacturing company with 1,000 issued ordinary shares. The only shareholder who works for the company is Maisie, the managing director.

Zainab had subscribed for 20 shares in Sunidee Ltd on 1 February 2018, using money from a savings account. Zainab sold these shares on 1 July 2023 making a gain.

If the disposal qualifies, Zainab will claim investors' relief when she submits her 2023/24 tax return in July 2024.

Explain whether Zainab's disposal in 2023/24 qualifies for investors' relief. (4)

7. Courtney used a building in her trade for many years. She had bought it for £250,000 on 1 July 2010.

On 1 July 2023, Courtney granted a 15-year lease over the building to a tenant for a premium of £80,000. The freehold reversion was valued at £320,000 when the lease was granted.

Calculate Courtney's chargeable gain on the grant of the lease. (3)

8. Deej, Elsa and Faisal traded in partnership for many years, sharing income and capital profits equally.

On 30 April 2023, Faisal retired from the partnership and a building that had been owned by the partnership was transferred to him.

Faisal sold the building on 31 March 2024.

The building's value has increased each month since its purchase by the partnership.

Explain the chargeable gains on the building for each of Deej, Elsa and Faisal in 2023/24. (3)

9. Uli had a Capital Gains Tax liability of £10,000 for 2022/23 on disposal of a business asset. He paid £3,000 when he submitted his tax return on 28 January 2024 and the remaining £7,000 on 30 April 2024.

Explain and calculate Uli's late payment penalty. (2)

10. Robert is a sole trader preparing accounts to 5 April each year. He has only trading income. He makes all payments of Income Tax on time.

Robert's Income Tax liability for 2022/23 was £20,000.

In February 2024 Robert lost a major customer, reducing his expected trading profits for 2023/24. In May 2024 he has calculated his Income Tax liability for 2023/24 to be £16,000.

Explain the action Robert can take to minimise the next Income Tax payment he must make, stating the due date for the payment. Ignore National Insurance Contributions. (3)

11. Peter and Quinn trade in partnership.

The partnership trading profits for the year ended 31 March 2024 were £120,000.

Until 31 December 2023 the profits were shared between Peter (40%) and Quinn (60%) with no allocated salaries.

From 1 January 2024, Quinn was allocated an annual salary of £20,000 and the partners shared the remaining profits equally.

Calculate each partner's trading profit for the year ended 31 March 2024. (3)

12. Azuka is a sole trader who uses the cash basis.

During the year ended 5 April 2024, Azuka received the following cash amounts:

	£
Receipt from credit sale made in March 2023	2,000
Receipts from sales made during the year ended 5 April 2024	34,000
Proceeds on sale of a computer used 100% for business	400

On 5 April 2024, Azuka was owed £900 from credit sales made in March 2024.

During the year Azuka made the following cash payments:

	£
New mobile phone used 25% for business	600
Entertaining customers	310
Office supplies	220

Calculate Azuka's taxable trading profits for the year ended 5 April 2024. Ignore VAT. (3)

13. In 2022/23, Ken had trading profits of £20,000 and other income of £190,000.

In 2023/24, he had a trading loss of £90,000 and other income of £80,000.

He had no gains.

Ken wants to maximise his tax savings from loss relief, without carrying the loss forward.

Calculate Ken's net income, after loss relief, for 2022/23 and 2023/24. Show all workings and assume that the tax rules that apply in 2023/24 also applied in 2022/23. (4)

PART II**Presentation skills** – awarded for quality of presentation.

(2 marks)

14. Alice (aged 47) has been employed for many years as a shop manager for a fashion retailer. On 1 November 2022 she left her job to set up a sole trader business. She was granted a lease on a shop from 1 December 2022 and opened it to customers on 1 January 2023. She prepared her first accounts for the 15 months from 1 January 2023 to 31 March 2024.

You have been given the following draft accounts:

	<u>Note</u>	£	£
Sales			260,000
Cost of sales	1		<u>(136,000)</u>
Gross profit			124,000
 <u>Expenses</u>			
Premises expenses (all allowable)		45,000	
Wage costs	2	36,000	
Motor expenses	3	8,400	
Administrative costs (all allowable)		6,700	
Legal and professional fees	4	4,500	
Depreciation		<u>2,200</u>	
			<u>(102,800)</u>
Net profit			<u>21,200</u>

You are also given the following information:

- Cost of sales includes clothing with a cost of £500. Alice wears the clothes whilst working in the shop. The retail value of the clothes is £900. Alice has not made any other adjustment in the accounts for the clothes.
- Wage costs include drawings taken by Alice of £8,000 and a salary of £7,000 paid to Alice's father for childcare for Alice's son. The remaining cost is for a full-time sales assistant, who Alice employed from August 2023.
- Motor expenses are analysed as follows:

	£
Lease payments	4,000
Running costs	4,200
Parking fines	<u>200</u>
	<u>8,400</u>

All the motor expenses relate to Alice's car, which has emissions of 125 g/km. The car has 60% private use.

- Legal and professional fees:

	£
Legal costs for lease	2,700
Accountancy fees	<u>1,800</u>
	<u>4,500</u>

- Alice made the following equipment purchases:

	£
Display equipment	5,500
Computerised till system	<u>2,500</u>
	<u>8,000</u>

Continued

Continuation

- 6) In the month before opening the shop, Alice had the following costs:

	£
Advertising	1,700
Repainting the outside of the shop	6,800
Removal of internal wall	5,400

The shop had previously been used as a children's clothes shop.

Alice has never been registered for self assessment. She has not notified HMRC of her new business, nor has she made any payments of Income Tax or National Insurance contributions for herself, other than deductions from her salary as an employee.

Requirements:

- 1) Calculate the taxable trading profit for the 15 months ended 31 March 2024. (7)
- 2) Explain when Alice should have registered her business with HMRC and the potential penalties. (3)
- 3) Explain the classes of National Insurance contributions for which Alice will be liable in 2022/23 and 2023/24. No amounts are required. (3)

Total (13)

15. Tadej has traded for many years running a café from a property in a small town and prepares accounts to 31 March each year. In the year ended 31 March 2024, he closed the café whilst work was carried out on the property. He has asked for explanations of the treatment of the following costs:

- 1) An extension was built on the back of the property to increase the size of the kitchen. It replaced an outbuilding. The costs included planning permission costs, demolition of the outbuilding, and construction costs. The work was completed in February 2024 and the kitchen was immediately brought into use.
- 2) A new central heating system was installed. Previously, the café had been heated by portable heaters. A first payment was due on 15 January 2024 with the balance payable five months later.
- 3) The walls of the café were re-plastered and repainted.
- 4) Pictures and ornaments were purchased for decoration of the café.
- 5) Second hand tables and chairs were purchased for use by the customers. One set was taken to be used at home by Tadej.
- 6) A van was purchased on a hire purchase agreement. The deposit was paid on 1 March 2024 and the balance will be payable over the next four years. The van was delivered on 20 March 2024. The van will be used 25% for business purposes by one of Tadej's employees.
- 7) Tadej bought a new car which he will use 30% for business purposes. The emissions of the car are 120g/km.

Requirement:

- Draft an email to Tadej to explain the capital allowances treatment of the costs.** (10)

16. Badbet Ltd is not part of a group of companies. It has traded for many years as a manufacturer of lorries preparing accounts to 31 December each year. The company operated from a factory in the town of Chatwith. Other income is received from the rental of a warehouse in Dorton, which Badbet Ltd previously occupied. On 30 June 2023, Badbet Ltd ceased trading. For the six months ended 30 June 2023 the draft trading loss was £760,000 after deduction of the following:

	£
Legal costs	12,600
Depreciation	35,000
Loss on disposal of fixed assets	82,000

Other information

- 1) The legal costs related to the sale of the company's factory in Chatwith.
- 2) Badbet Ltd sold a punch press machine for £25,000 on 30 June 2023. The press had cost £35,000 in December 2021. Badbet Ltd had claimed enhanced first year allowances on the purchase. The rest of the plant and machinery was sold at auction for £42,000. The tax written down value brought forward on the general pool at 1 January 2023 was £27,000. No assets were sold for more than cost.
- 3) The factory had been bought in December 2010 for £125,000 and an extension completed and brought into use at the end of December 2021 at a cost of £150,000. Structures and building allowance had been claimed on the cost of the extension. The factory was sold for £600,000 on 30 June 2023. Badbet Ltd had not previously made any chargeable gains or losses.
- 4) Rental income of £30,000 per annum from the warehouse in Dorton is receivable every six months on 1 January and 1 July. This income was not included in the trading loss for the period.
- 5) Badbet Ltd makes two qualifying charitable donations of £500 on 1 March and 1 October each year. The donations were not included in the trading loss for the period.
- 6) Badbet Ltd had previously been a profitable company.
- 7) For the year ended 31 December 2022, the estimate of Corporation Tax due was £16,000. The final amount paid on 25 September 2023 was £15,200.

Requirements:

- 1) (i) Calculate the trading profit or loss for the six months ended 30 June 2023.
(ii) Calculate the Corporation Tax liability for the accounting period(s) for the year ended 31 December 2023 before any loss relief claims. (14)
- 2) Assuming a trading loss for the six months ended 30 June 2023, explain the loss relief available to Badbet Ltd. (3)
- 3) Show the accounting journal entries to record the Corporation Tax transactions in 7) above and for any relevant over or under provision. (3)

Total (20)

17. You work for Moon LLP, a firm of tax advisers and Weifei is a client of your firm. Weifei has traded for many years operating a hotel. She employs kitchen and housekeeping staff, and leases catering equipment used in the hotel. She intends to cease trading on 30 June 2024. Weifei will sell the hotel to her son Li on 30 June 2024 for £380,000. He will then convert the hotel and use it in his business.

You are given the following information:

- 1) The hotel is owned by Weifei. The hotel cost £275,000 in 2015 and the market value is currently £750,000. Weifei has never lived in the hotel. She also rents some land nearby for guest parking. Li will not need that land for his business.
- 2) Weifei also sold some land on 20 April 2024 which had not been used for her business. She made a chargeable gain of £16,000. She will make no further Capital Gains Tax disposals during 2024/25. She has no losses brought forward.
- 3) Weifei estimates taxable trading profits of £25,000 for 2024/25. She has no other sources of income.
- 4) Weifei is registered for VAT, making fully taxable supplies. All amounts exclude VAT where relevant.
- 5) Li has also asked you for advice on his purchase of the hotel from his mother.

Requirements:

- 1) **Calculate the Capital Gains Tax payable by Weifei for 2024/25 and the base cost of the hotel for Li. Assume any beneficial claims are made and future rates and reliefs are the same as 2023/24.** (6)
- 2) **Explain what actions Weifei needs to take for VAT purposes when she ceases to trade. You are NOT required to consider actions relating to the hotel building.** (3)
- 3) **Explain any legal issues that Weifei will need to consider.** (3)
- 4) **Explain the options available to Moon LLP in relation to acting for Weifei and/ or Li under Professional Rules and Practice Guidelines.** (3)

Total (15)