

CIOT - ATT

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

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Answer-to-Question-\_1\_

			£
Goods for resale	(£9,000 x 20/120)		1,500
Wages	Not VAT charged so non recoverable		
Car	Motor cars bloced for input tax		
Computer	(£500 x 20/100)		100
Input VAT recoverable for quarter ended 31 March 2024			1,600

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question-\_2\_

There is a rate of debit interest on overdue instalments of 5% and a rate of credit interest on overpaid instalments of 3.75%. Interest calculated as follows:

		£	
$\pounds 120,000 \times 5\%$ $\times 90/365$		1,479	
$\pounds 120,000 \times 5\%$ $\times 168/365$		2,762	
Interest due to HMRC		4,241	

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-\_3\_

Interest payable on loan to purchase property which was let out is is trading loan relationship and wouldn't be deducted from TTP.

Legal fees on sale of a factory used in trade would be dedcuted from proceeds to get chargeable gains.

Recruitment fees for engineering staff would be allowaed expenditure.

Repairs to manufacturing machinery would be deducted to get property income.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4\_

TTP £175,000 + dividends of unconnected parties £18,000 =  
augmented profits £193,000

This is between the upper limit of £250,000 and the lower  
limit of £50,000

		£	
£175,000 @25%		43,750	
Less: marginal relief			
$3/200 \times (\pounds 250,000 - \pounds 193,000) \times (\pounds 175,000 / \pounds 193,000)$		(775)	
Corporation tax liability		42,975	

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

The overseas property loss of Y/e 31.12.22 of £30,000 can be carried forward and set against the overseas property income of Y/e 31.12.23 of £50,000. Carry back claims are not possible. There is no claim needed for this carry forward.

The NTLR deficit of £18,000 in the Y/E 31.12.13 can be set against total profits in the current period. It can't be carried back as Elethant Ltd has no NTLR income in any year. The claim must be made 2 years from the end of the loss making period so by 31 December 2025.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

To qualify for investors' relief:

- Shares must be in a trading company (or holding company of a trading group) and must be unlisted when they are issued
- Shares must be new ordinary shares subscribed for cash on or after 17 March 2016
- The individual (or an individual connected to them) cannot usually be a director or employee of the company
- The shares must have been held for 3 years.

Zainab's disposal does not qualify for investor's relief as Sunidee Ltd is a manufacturing company and not a trading company. Trading companies do not make goods, store them or own them. They act as intermediaries between the manufacturers and the importers who want to buy their products.

She does fulfill all the other conditions.

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

		£	
Proceeds = capital element	$(2\% \times (15-1) \times \pounds 80,000)$	22,400	
Less: cost	$\pounds 250,000 \times \pounds 22,400 / (\pounds 80,000 + \pounds 320,000)$	(14,000)	
Chargeable gain		8,400	

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question- 8\_

For Deej and Elsa the chargeable gain is calculated as  $\frac{1}{3}$  each of the market value of the building at the time it was transferred to Faisal take away  $\frac{1}{3}$  each of the cost.

For Faisal the chargeable gain is calculated as the total proceeds when he sold the building minus the  $\frac{1}{3}$  market value amounts that Deej and Elsa used as their proceeds minus  $\frac{1}{3}$  of the original cost of the building.

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question-\_9\_

For 2022/23 Util should have paid been paid by 31 January 2024. As £3,000 was paid before this date he will only be charged a penalty on the £7,000 outstanding. The penalty is 5% on more than 30 days late from 31 Jan 2024 which 30 April 2024. So the penalty is 5% of £7,000 = £350

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

Robert can make a claim to reduce his payment on account. As he expects his current year tax liability to be less than the tax due for the previous year, he can ask HMRC to accept lower payments on account.

When making a claim to reduce payments robert must specify the amount he wishes to pay. He must make the claim in notice by writing , giving reasons why the payment on account should be reduced. The claim can be made at any time up to 31 January after the end of the tax year concerned so by 31 January 2025.

HMRC are normally quite relaxed about accepting claims, however if a reduction is excessive so that taxpayer pays far less on account than they really ought to, HMRC can charge penalties.

If tax is paid late, HMRC will always charge interest on overdue tax. The same principle will apply where a taxpayer excessively reduces the payments on account that they should be making.

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-----ANSWER-10-ABOVE-----  
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 -----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

Y/e 31 March 2024

		Total	Peter	Quinn
1.4.23 - 31.12.23 (9 months)		£	£	£
9/12 x £120,000		90,000		
Shared 40:60		(90,000)	36,000	54,000
		Nil		
1.1.24 - 31.3.24 (3 months)				
3/12 x £120,000		30,000		
Salaries 3/12 x £20,000		(5,000)		5,000
		25,000		
Shared 50:50		(25,000)	12,500	12,500
		Nil	48,500	71,500

Peter - y/e 31.3.24 trading profit £48,500

Quinn - y/e 31.3.24 trading profit £71,500

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 -----ANSWER-11-ABOVE-----  
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 -----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

		£	
Amounts received from sales (not credit)		34,000	
Proceeds from sale of computer		400	
Less: expenses			
New mobile phone used 25% for business	25% x £600	(150)	
Entertaining customers		(310)	
Office supplies		(220)	
Taxable trading profits Y/e 5 April 2024		33,720	

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 -----ANSWER-12-ABOVE-----  
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-----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

	2022/23	2023/24
	£	£
Trading profits	20,000	nil
Other income	190,000	80,000
Net income	210,000	80,000
Less: Current year claim		nil
Less: carry back claim	(90,000)	
Net income after loss relief	120,000	80,000

Under ITA 2007 S.64 losses can be used against net income in the current period and/or preceding tax year. The two claims being independent and no partial claims being permitted.

Ken's is only paying tax in 2023/24 at a highest rate of 40% on some of his income ( $£80,000 - £12,570 - £37,700 = £29,730$ ), however he is paying 45% tax on all his income in 2022/23 over  $£125,140$  so ( $£210,000 - £125,140 = (104,140)$ ). As he wants to save tax at the highest rate possible it is better to carry the trading loss back to 2022/23 as he is saving tax at 45% rather than 40%.

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-----ANSWER-13-ABOVE-----  
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Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**

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 -----ANSWER-14-BELOW-----  
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Answer-to-Question- 14\_

1) Taxable trading profit 15 m/e 31 March 2024

Adjustments to profits

		£	£
Profit per draft accounts			21200
Add:			
Clothing (Alice wears)		900	
Depreciation		2200	
Motor expenses (running costs)	(£4200 x 40%)	1680	
Lease payments	(£4000 x 15%)	600	
Parking fines		200	
Legal and professional fees		4500	
Wages		36000	
Capital expenditure		8000	
			54080
Less: AIA @100% on capital expenditure			(8000)
Adjusted taxable trading profit 15 m/e 31.3.24			67280

2) You must notify HMRC six months after the end of the tax year that you become chargeable. Alice became chargeable on 1 January 2023 as this is when she opened her shop to customers so this is in the 2022/23 tax year therefore she should have notified HMRC of chargeability by 5 October



2023.

The penalties depend on the behaviour of alic and they are calculated as a percentage of 'potential lost revenue'. For a deliberate and concealed failure, the penalty will be a maximum 100% of potential lost revenue; for a deliberate but not concealed failure, the maximum will be 70% of the potential lost revenue; and for any othe case the maximum will be 30% of potential lost revenue.

3) Alic will be liable to pay Class 2 National Insurance contributions with effect from 1 January 2023. She is also liable to pay Class 4 National Insurance Contributions on her profits from 2023/24 onwards.

She will not be require to make any contributions for 2022/23, if her profits do not exceed the small profits threshold for Class 2 and the lower profits limit for Class 4 respectively.

She may, however, want to make Class 2 contributions for 2022/23 to preserve her entitled to state benefits.

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question-\_15\_

Hi Tadej,

Hope you are well.

Please see below an explanation of the capital allowances treatment of each of these costs

#### Extention

The capital expenditure spent on extending the property is eligible for structures and buildings allowance (SBA) at 3% per annum on cost from the date the asset was brought into use. The permission costs are not included but the demolation costs and construction costs are. For the year ended 31 March 2024 you will will be able to claim 1 months worth of SBA as the kitchen was only broyght into use in February 2024. Any expenditure on plant and machinery in the kitchen wouldn't qualify for SBAs.

#### Central heating system

The central heating system would class as an 'integral feature' so would qualify for the 100% annual investment allowance with a limit of £1,000,000 per year. The balance of any special rate pool expenditure will qualify for a 50% first year allowance in thsi period. Only the first payment on 15 January 2024 will qualify for capital allowances in this period as the balance payment was five months later which is after the 31 March 2024 year end.

#### Walls of cafe

The capital expenditure on the walls of the cafe is eligible for SBA at 3% per annum per cost from the date the asset was brought into use. As the cafe was closed throughout the whole year to 31 March 2024 he won't be able to claim

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capital allowances in this period. He can only claim them when the cafe is being used again.

Pictures and ornaments

As pictures and ornaments are just part of the setting in which the trade is carried out in they qualify for SBAs and won't be able to be claimed in this period the same as the walls.

Second hand tables and chairs

Only the sets which haven't been taken by Tadej to use at home will qualify for CAs as assets must be used in trade to qualify. The tables and chairs as plant and machinery will qualify for AIA and if they exceed the limit, the balance is given at a writing down allowance at 18%

Van on hire purchase

The van will be eligible for capital allowances on cash price in the y/e 31 March 2024 as the deposit was paid and van was delivered in this period. The van will be eligible for 100% first year allowance and no private adjustment is needed.

Car

As the car has CO2 emissions of over >50g/km the car will be eligible for a 6% writing down allowance. As the car has a private use it must be kept in its own column and an adjustment is made to reduce the allowance give to the business use only element.

Let me know if you have any questions.

Kind regards,  
Name

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-----ANSWER-15-ABOVE-----  
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 -----ANSWER-16-BELOW-----  
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Answer-to-Question- \_16\_

1)

i)

Capital allowances

	General pool	Allowances	
	£	£	
TWDV b/f	27000		
Disposals:			
Plant and machinery	(42000)		
Balancing charge	(15000)	(15000)	

Trading profit

	£	£
Loss per accounts		(760,000)
Add:		
Depreciation	35,000	
Loss on disposal of fixed assets	82,000	
Legal costs on sale of factory	12,600	
		129,600
Adjusted trade loss		(630,400)


ii)

6 m/e 30 June 2023

Factory

		£	£
Proceeds			600,000
Less:			
Cost		(125,000)	
Extention		(150,000)	
SBA claimed on extention	(3% x 150,000) x 1.5 for half year to 30 June 2023	(6,750)	
Indexation allowance	(278.1-228.4) /228.4 = 0.218 x 125,000	(27,250)	
			(309,000)
Chargeable gain			291,000

			£
Adjusted trading loss			(630,400)
UK property business income	1 January 2023 rental income (£30,000/2)		15,000
Net chargeable gains			291,000

Less: balancing charge on CAs	15,000 + (35,000 x 130%) as SD already claimed on this		(60,500)
Less: charitable donation	1 March 2023 donation		(500)
Trading loss 6 m/e 30 June 2023			(385,400)

There is a trading loss for this period so there is no corporation tax liability.

6 m/e 31 December 2023

			£
Rental income	1 July 2023 (£30,000/2)		15,000
Less: donation to charity	1 October 2023		(500)
Taxable trading profit			14,500

The lower limit would be  $£50,000/2 = £25,000$

The TTP for this period is below the lower limit so there is no corporation tax liability.

2) Assuming a trading loss for the six months end 30 June 2023, the company will be eligible for terminal loss relief. This is where a company ceases to trade the trading loss for the final period can be carried back against total profits

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of the 36 months ending immediately before the loss making period.

3)

Actual payment of corporation tax for the Y/e 31.12.22

		£	£
Dr CT creditor		15,200	
Cr Bank			15,200

Overprovision of corporation tax for Y/e 31.12.22

		£	£
Dr CT creditor	(£16,000 - £15,200)	800	
Cr CT charge			800

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-----ANSWER-16-ABOVE-----  
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-----ANSWER-17-BELOW-----  
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Answer-to-Question- \_17\_

1)

Hotel gain

		£	
Sale proceeds (Market value)		750,000	
Less: cost		(275,000)	
Gain before relief		475,000	
Less: gift relief		(370,000)	
Gain (actual sale proceeds - original cost)	(£380,000 - £275,000)	105,000	

Base cost for Li of the hotel

		£	
Market value		750,000	
Less: gift relief		(370,000)	
Revised base cost		380,000	

Capital gains tax

Business asset disposal relief is available as Weifei is disposing of her whole business which she has owned for two years. So she will be taxed at 10% on the gain on the hotel.

No BADR available on the disposal of land as this was not used



is her business.

		Gains eligible for BADR	Gains not eligible for BADR
		£	£
Gain on hotel		105,000	
Gain on land			16,000
Less: AEA (used against land as higher CGT rate)			(6,000)
Taxable gains		105,000	10,000
CGT @10%		10,500	
CGT @20%			2,000

Total CGT payable for 2024/25 = £12,500

2) On cessation Weifei must deregister for VAT purposes within 30 days.

In addition if there is any stock of other assets on hand on cessation upon which tax has been claimed, then output tax must be accounted for on the replacement value, unless the total amount of output tax is no more than £1,000.

3) Weifei will need to consider if Moon LLP are acting fairly on her behalf or are acting more in favour of her son.

She also needs to consider what to do with all the employees she employs in her business.

She will need to consider if she needs to end the leases for catering equipment used in the hotel.

She might need to consider entering her business into an insolvency process of either liquidation or administration.

4) The three choices are:

i) To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate.

ii) To act for one client only - normally the one who sought advice first.

iii) To act for neither party - if conflict cannot be managed.