



May 2024 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1. (3 marks)

	£	£	
Goods for resale	£9,000 × 1/6	1,500	(1/2) recovery (1/2) amount
Wage		0	(1/2)
Car		0	(1/2)
Computer	£500 × 20%	100	(1/2) recovery (1/2) amount
Input VAT recoverable		<u>£1,600</u>	

2. (4 marks)

The third instalment was due by 14 January 2024 (1/2) and so there is interest payable *payment late* (1/2) of £120,000 × 2/12 (1/2) × 5% (1/2) = £1,000.

The fourth instalment was due by 14 April 2024 (1/2) and so there is interest receivable *payment early* (1/2) of £120,000 × 1/12 (1/2) × 3.75% (1/2) = £375.

3. (2 marks)

Cost	Income/gain	
Interest on loan to purchase property let out	Non-trading loan relationship/Interest income	(1/2)
Legal fees on the sale of the factory	Gain	(1/2)
Recruitment fees for engineering staff	Trading profits	(1/2)
Repairs to manufacturing machinery	Trading profits	(1/2)

4. (3 marks)

Taxable total profits	£	
	175,000	
Dividends received	18,000	
Augmented profits	<u>193,000</u>	(1/2)
Corporation tax liability:		
£175,000 × 25% (1/2)	43,750	
Less marginal relief:		
3/200 (1/2) × (250,000 (1/2) – 193,000 (1/2)) × 175,000/193,000 (1/2)	(775)	
Corporation tax liability	<u>£42,975</u>	

Failing to calculate and use augmented profits loses first and last ½ marks – penultimate ½ mark available on follow-through

5. (3 marks)

The overseas property loss of £30,000 is carried forward to the year ended 31 December 2023 (1/2) and set against the overseas property income of £50,000 (1/2).

No claim is made (1/2). *Does not have to be stated provided no claim stated or implied.*

The NTLR deficit of £18,000 is used in the year of the deficit (the year ended 31 December 2023) (1/2) in full against any kind of profits (1/2).

A claim for use of the deficit must be made by 31 December 2025 (1/2).

Tutorial note

There is no choice for the use of the overseas property loss. An answer proposing any alternative / additional loss relief to carry forward will not score the first ½ mark.

The company policy is to use deficits as early as possible. The deficit cannot be carried back as there is no NTLR income in the prior year, so a current year claim is appropriate. An answer proposing any alternative to current year relief will not score the ½ mark for use in the year of the deficit.

6. (maximum 4 marks)

Sunidee Ltd is a trading company (1/2).

The shares were issued on or after 17 March 2016 (1 February 2018) (1/2).

Zainab held the shares continuously for at least three years (1 February 2018 – 1 July 2023) (1/2).

Zainab had subscribed for cash (1/2) for the ordinary shares (1/2).

When the shares were issued, the company was unlisted (1/2).

Zainab has not been an employee of Sunidee Ltd (1/2).

The claim will be made in July 2024 so by the deadline of 31 January 2026 (1/2).

Therefore, the disposal qualifies for investors' relief (1/2) to the extent the gain is within Zainab's lifetime limit of £10 million (1/2).

7. (3 marks)

Proceeds = £80,000 × 2% (1/2) × (15 – 1) (1/2)*	£
Less £250,000 (1/2) × £22,400 (1/2) / (£80,000 (1/2) + 320,000 (1/2))	22,400
Chargeable gain	<u>(14,000)</u>
	<u>£8,400</u>

*or equivalent calculation

8. (maximum 3 marks)

Deej and Elsa each have a chargeable gain on the transfer to Faisal on 30 April 2023 (1/2).

The gain for each is equal to their share (one third) (1/2) of: the market value at 30 April 2023 less the original cost to the partnership (1/2).

Faisal has only a notional gain (does not have a chargeable gain) on the transfer in April of this amount (1/2).

Faisal has a chargeable gain on sale in March 2024 of proceeds less base cost (1/2). The base cost is the market value at 30 April 2023 (1/2) less Faisal's notional gain (1/2).

Credit is given for explaining when gains are chargeable, on whom, and broadly how these gains are calculated. There are no marks available for explanations of Capital Gains Tax, the annual exempt amount, rates etc as the question only asked about chargeable gains.

9. (maximum 2 marks)

The payment was due on 31 January 2024 (1/2) and so £7,000 is three months late (1/2).

As the payment is more than 30 days late *only* (1/2) a penalty of 5% (1/2) of the unpaid tax will be charged ie £7,000 × 5% = £350 (1/2).

10. (maximum 3 marks)

Robert must make a payment by 31 July 2024 (1/2). Without action, this payment should be 50% of the 2022/23 liability ie £10,000 (1/2).

Robert can reduce this if he makes a claim to reduce his payments on account (1/2).

In the claim, Robert should specify the amount he wishes to pay as payments on account (1/2) ie £8,000, 50% of the actual liability (1/2). He should give the reason why the payment on account should be reduced / should explain the fall in trading profits due to the loss of customer (1/2). Robert must make the claim by 31 January 2025 (1/2).

As Robert has already paid £10,000 as the first payment on account, the claim means he only needs to pay a further £6,000 in July (1/2).

11. (3 marks)

	Total £	Peter £	Quinn £
1 April 2023 – 31 December 2023 £120,000 × 9/12 (and 3/12 below) PSR 40:60	90,000 <u>(90,000)</u>	36,000	54,000 (1/2)
1 January 2024 – 31 March 2024 £120,000 × 3/12 Salary £20,000 × 3/12	30,000 <u>(5,000)</u> 25,000		5,000 (1/2)
PSR 1:1 Trading profits for y/e 31 March 2024	<u>(25,000)</u>	<u>12,500</u> <u>£48,500</u>	<u>12,500</u> (1/2) <u>£71,500</u> (1/2)

*Lose final ½ if no salary included in the total (even if calculated to determine profit share).

12. (3 marks)

Cash receipt from credit sale made in previous year	£ 2,000	(1/2)
Sales made during the year <i>incorrect if £900 included anywhere in calc</i>	34,000	(1/2)
Proceeds on sale of computer	400	(1/2)
Less payments:		
Mobile phone £600 × 25%	(150)	(1/2)
Entertaining customers (give if full calc with no deduction)	0	(1/2)
Office supplies	<u>(220)</u>	(1/2)
Trading profit	<u>£36,030</u>	

13. (4 marks)

	2022/23	2023/24	
	£	£	
Trading profits	20,000	0	(1/2)
Other income	<u>190,000</u>	<u>80,000</u>	(1/2)
	210,000	80,000	
Prior year loss relief (W)	<u>(72,500)</u>		
Current year loss relief (W)		<u>(17,500)</u>	
Net income	<u>£137,500</u>	<u>£62,500</u>	(1/2)

Final ½ mark in table above, for following through with candidate's own loss relief(s) and giving net income after loss relief for both years as required.

Workings

Prior year loss relief in 2022/23: (1/2) for prioritising this over current year relief

greater of £50,000 (1/2) and $25\% \times £210,000$, so £52,500 (1/2)

+ £20,000 trading profit not restricted (1/2) = £72,500

Current year loss relief for remaining loss of £17,500 ($£90,000 - 72,500$) (1/2).

If no loss restriction, can get 1½ marks in table above, plus ½ for prioritising prior year relief (using total loss), maximum 2 marks.

Tutorial note

Ken is an additional rate taxpayer in 2022/23 so loss relief is maximised if carried back before a current year claim which only saves at the higher rate.



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Part II Suggested Answers

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14. **Alice**

1) Adjustment to profit		£	
Profit per accounts		21,200	
Adjustments:			
Goods for self	(retail value)	900	1/2
Drawings		8,000	1/2
Salary paid to Alice's father		7,000	1/2
Lease payments	4,000 – (85% x 40% x 4,000)	2,640	1
Other running costs	4,200 x 60%	2,520	1/2
Parking fines		200	1/2
Legal re lease		2,700	1/2
Depreciation		2,200	1/2
Pre-trading expenses:			
Advertising		(1,700)	1/2
Repainting shop	Allowed as usable prior to trading	(6,800)	1
Alterations	Not allowable - capital	-	1/2
		38,860	
Capital allowances:			
AIA on equipment		(8,000)	1/2
Taxable trading profit		30,860	(7)

- 2) Alice should have registered the business by 5 October 2023: six months after the end of the tax year in which she started to trade (1/2). It seems that the error was careless (1/2) so the maximum penalty would be 30% (1/2) of the Income Tax (1/2) and Class 4 National Insurance contributions (1/2) which were due at 31 January 2024 (1/2). As this was less than 12 months ago, and appears unprompted, the minimum penalty would be nil (1/2).

Max (3)

- 3) Alice will have had Class 1 National Insurance primary contributions deducted from her salary (1/2). She will have to pay Class 2 contributions (1/2) from 1 January 2023 (1/2). She will also have to pay Class 4 contributions calculated (1/2) on her profits. She is also liable for Class 1 secondary contributions for her employee (1/2). However, this will be covered by the Employment Allowance (1/2).

(3)

Total (13)

15. **Tadej**

To: tadej@email.com
From: adviser@email.com

Subject Capital expenditure costs.

Hello Tadej

Thank you for the details of the costs that you have incurred in the last financial year. I have set out below the treatment of each one for tax purposes:

- 1) The demolition of the outbuilding (½) and the construction costs (½) will qualify for structures and building allowance (½) at the rate of 3% (½) from the date that the extension was first used (February 2024) (½). The planning permission costs do not qualify for relief (½).
- 2) The central heating system is an integral feature and qualifies for annual investment allowance (½). The first payment will be eligible for deduction in the year ended 31 March 2024 (½). The balance will not be eligible for relief until the accounting period in which it is paid i.e. year ended 31 March 2025, as it is due more than 4 months later (½).
- 3) No capital allowance implications as the re-plastering and repainting will be deductible as revenue expenditure (½).
- 4) The pictures and ornaments will qualify for annual allowance as plant and machinery (½). The expenditure qualifies as they enhance the ambience of the café (½).
- 5) The second-hand tables and chairs will qualify for annual investment allowance as plant and machinery (½). Only the business element will be allowable (½).
- 6) The total capital cost of the van will be eligible for annual investment allowance in the year ended 31 March 2024 (½) as this is the accounting period when it was brought into use (½). There is no restriction for the use of the van by the employee (½).
- 7) The car will be included in the private use asset column (not eligible for annual investment allowance) (½) and eligible for a 6% writing down allowance (½) restricted to 30% for business use (½).

If there are any queries, please do not hesitate to contact me.

Kind regards

An adviser

Total (10)

16. Badbet Ltd

1) (i) Calculation of trading loss

		£	
Loss per accounts		(760,000)	
Depreciation		35,000	½
Loss on disposal of fixed assets		82,000	½
Legal costs		12,600	½
Capital allowances			
Balancing charge	Working 1	15,000	½
Enhanced FYA clawed back	Working 2	28,750	½
SBA	3% x 150,000 x 6/12	(2,250)	1
Trading loss		(588,900)	

Working 1

Balancing charge	General pool £	
WDV b/f	27,000	
Sales proceeds	(42,000)	½

Balancing charge	<u>(15,000)</u>
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Working 2

Enhanced FYA clawed back		£
Punch press	$(3/6 \times 30\% + 100\%) \times 25,000$	<u>28,750</u> 1½

1) (ii) Calculation of tax liability

Six months ended	30 June 2023 £	31 December 2023 £	
Trading Profit	-	-	½
Rental income	15,000	15,000	½
Chargeable gain	291,900		½
Charitable donation	(500)	(500)	½
Total taxable profits	<u>306,400</u>	<u>14,500</u>	
Tax due at $(25+19)/2 = 22\%$	67,408		1
At 19%		<u>2,755</u>	½

Working

Gain on sale of factory.		£
Sales proceeds		600,000
SBA claimed	$3\% \times 150,000 \times 18/12$	6,750 2
Less: legal costs		<u>(12,600)</u> ½
		594,150
Cost – original		125,000 ½
Cost – extension		<u>150,000</u> ½
		<u>(275,000)</u>
		319,150
Indexation allowance	$(278.1 - 228.4)/228.4 \times 125,000$	1½
	$0.218 \times 125,000$	<u>(27,250)</u>
Chargeable gain		<u>291,900</u>

(14)

2) Loss relief

The loss for the 6 months ended 30 June 2023 can be set against the total profits (before QCDs) for the same accounting period (½). After a current year claim has been made (½) the loss can then be carried back to the year ended 31 December 2022 (½). The claims are all or nothing so the charitable donations will be wasted (½). As Badbet Ltd has finished trading, the loss can also be carried back against the total taxable profits for the years ended 31 December 2021 and 31 December 2020 (½). Relief will be against later years first (½). The loss cannot be carried forward to the accounting period ended 31 December 2023 as Badbet Ltd was not trading (½).

Max (3)

	£	£		3) Accounting for Corporation Tax
Tax estimate				
Dr Corporation tax (P&L)	16,000		$\frac{1}{2}$	
Cr Corporation tax creditor		16,000	$\frac{1}{2}$	
Tax paid				
Dr Corporation tax creditor	15,200		$\frac{1}{2}$	
Cr Bank		15,200	$\frac{1}{2}$	
Over provision				
Dr Corporation tax creditor	800		$\frac{1}{2}$	
Cr Corporation tax (P&L)		800	$\frac{1}{2}$	
			(3)	

17. Weifei - Capital Gains Tax

		£	£	
Gain not qualifying for BADR:				
Land		16,000		
Less: Annual exempt amount		<u>(6,000)</u>		$\frac{1}{2}$
		<u>10,000</u>		
Tax due at 20%	No basic rate band available		2,000	1
Gain qualifying for BADR:				
Hotel	Working	<u>105,000</u>		
Tax due at 10%			10,500	$\frac{1}{2}$
Capital Gains Tax due			<u>12,500</u>	

Working – Gain on hotel

	£	
Market value	750,000	$\frac{1}{2}$
Cost	<u>(275,000)</u>	$\frac{1}{2}$
Gain	475,000	
Gift relief	<u>(370,000)</u>	$\frac{1}{2}$
Chargeable gain (excess proceeds)	<u>105,000</u>	$\frac{1}{2}$

	£	
Proceeds received	380,000	1/2
Cost	<u>(275,000)</u>	1/2
Excess proceeds	<u><u>105,000</u></u>	

Base cost of hotel for Li

	£	
Market value	750,000	1/2
Gift relief	<u>(370,000)</u>	1/2
Base cost	<u><u>380,000</u></u>	

(6)

2) VAT deregistration

When Weifei ceases trading, she has to compulsorily deregister (1/2) for VAT purposes. She will need to advise HMRC within 30 days (1/2) of ceasing to trade, i.e. by 30 July 2024 (1/2). The deregistration will take effect from 30 June 2024 (1/2). She will complete a final VAT return (1/2) for the business and will include, as a deemed supply (1/2), the VAT on the value of any goods on hand at 30 June 2024 (1/2), unless the VAT on the value is less than £1,000 (1/2). **Max (3)**

3) Legal aspects

- (a) Weifei will need to make any staff redundant (1).
- (b) The rental agreement on the parking land nearby will need to be terminated (1).
- (c) She will need to check the terms of the catering equipment lease and see if it can be terminated early (1). **(3)**

4) Ethical considerations

This situation is a potential conflict of interest (1/2). Under the Professional Rules and Practice Guidelines, there are three options:

- (a) Act for one party (1/2). In this case it will be Weifei as the firm is already acting for her (1/2).
- (b) Act for both parties (1/2). There will need to be several safeguards:
 - (i) Both Weifei and Li will need to be made aware of the situation and given the chance to decide if they wish to appoint other advisers (1/2).
 - (ii) The firm is satisfied that the conflict can be managed e.g. by appointing different teams (1/2).
 - (iii) Both Weifei and Li agree (1/2), and
 - (iv) No preference is shown for either Weifei or Li (1/2).
- (c) Act for neither party (1/2) **Max (3)**