

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

November 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. Seldaq Ltd owns a hotel and has traded since 2015. Accounts are prepared to 31 March each year. In October 2023, the company incurred costs to demolish a building previously used for storage and create additional bedrooms. The bedrooms were first let on 1 February 2024.

The costs of the work done were as follows:

	£
Planning permission	7,600
Demolition of storage building	8,200
Construction costs	280,000
Plumbing and heating systems	<u>26,000</u>
	<u>321,800</u>

Calculate the structures and buildings allowance available to Seldaq Ltd for the year ended 31 March 2024. (3)

2. Sue has traded for many years running a bed and breakfast business from the house she lives in with her civil partner, Rosie. Accounts have been prepared to 31 March each year. They have a son James. James is at university but returned home for four months in 2023/24. The house has four floors and one floor is used privately.

The household costs for the year were as follows:

	£
Mortgage interest	9,800
Council tax	5,600
Heat and light	13,700
Food and drink	<u>12,300</u>
	<u>41,400</u>

Sue also uses her car for business purposes. She travelled 7,600 miles on business in 2023/24.

She wants to claim expenses on the flat rate basis.

Calculate the expenses that Sue can claim for 2023/24. (3)

3. Thomas started trading as a builder on 1 October 2021. He prepares his accounts to 31 March each year. His trading results were as follows:

	<u>Profit/(loss)</u>
	£
Year ended 31 March 2024	(175,000)
Year ended 31 March 2023	65,000
Six months ended 31 March 2022	25,000

He also has rental income of £60,000 per annum from a property bought in June 2019. He has no other income or deductible payments in any tax year.

Calculate Thomas's net income after loss relief for all relevant tax years assuming relief is claimed as early as possible. (4)

4. Dawid started trading as a management consultant on 1 June 2021. He completed his self-assessment tax return for 2021/22 and submitted it online on 1 January 2023. He has become a client of your firm and as part of your work on the 2023/24 tax return, you notice that he deducted the full purchase cost of his car of £31,250 from his profits for 2021/22. It appears that this was a misunderstanding on Dawid's part. The car was purchased on 1 August 2021, is used 80% for business purposes and has CO₂ emissions of 160 g/km. Dawid's taxable income for 2021/22 was approximately £15,000. He paid his total Income Tax and National Insurance contributions of £1,100 on 31 January 2023. He was a basic rate taxpayer for 2021/22 and will remain so after the adjustment.

Explain the penalty potentially payable by Dawid and calculate the maximum penalty amount due. (3)

5. Jinan is non-binary and identifies as they. Jinan has been a sole trader for many years running a beauty salon. They have also had a hobby of occasionally uploading make-up videos to an online video streaming platform. Following an appearance on a reality television show in 2023, the subscribers to Jinan's video channel have increased substantially. Jinan is now uploading weekly videos to maintain interest and increase advertising revenue. They also set up a website to sell t-shirts on which they print some of their make-up designs. The cost of the website was financed by a bank loan.

Explain four reasons why HMRC will treat the income earned by Jinan from the video channel and website as trading income for tax purposes. (4)

6. Gwyn has traded for many years as a florist. She filed her own 2022/23 self-assessment tax return on 20 January 2024. In the return, she claimed for a deduction for repairs carried out on her shop. HMRC disagreed with the deduction and amended the return on 24 August 2024 disallowing the expense. Gwyn made an appointment with your firm on 1 September 2024 as she doesn't agree with HMRC's decision.

Explain the steps that Gwyn can take regarding the HMRC amendment to her 2022/23 self-assessment tax return. (2)

7. Platic Ltd manufactures office furniture. Platic Ltd's accountant is preparing the VAT return for the quarter ended 30 June 2024 and has asked for your advice on the following transactions.

- 1) An engineering consultant visited the factory on 20 June 2024 to carry out a safety review. The invoice for £800 net of VAT was dated 8 July 2024. It was received by Platic Ltd on 9 July 2024, and paid that same day.
- 2) A contract was agreed for the supply of a new machine. Platic Ltd paid a deposit of £2,400 on 23 April 2024. The machine was delivered on 26 June 2024. The invoice for the total cost of the machine of £13,600 net of VAT was dated 2 July 2024. The balance was paid on 30 July 2024.

Explain the tax points for the transactions and calculate the input VAT that can be claimed at each tax point. (4)

8. Zuquit Ltd started trading on 1 June 2020 and prepares accounts to 31 May each year. The Corporation Tax returns were filed as follows:

<u>Accounts year end</u>	<u>Date filed</u>
31 May 2021	20 July 2022
31 May 2022	11 October 2023
31 May 2023	14 December 2024

The Corporation Tax liability for the year ended 31 May 2023 was £8,600. £4,000 was paid on 20 November 2024 and the balance of £4,600 on 14 December 2024. Zuquit Ltd is neither a large nor a very large company.

Explain the late filing penalties due for each of the three years ended 31 May 2021 to 2023. (3)

9. On 1 October 2023, Margli Ltd granted a 60-year lease on a factory to Shusti Ltd for £285,000. The factory had cost £169,000 in December 2001 and the value of the reversion on 1 October 2023 was £203,000.

Calculate the chargeable gain on the grant of the lease to Shusti Ltd. (3)

10. Luis ceased trading on 31 March 2020. His trading results were as follows:

<u>Year ended</u>	<u>Profit/(loss)</u>
	£
31 March 2020	(24,000)
31 March 2019	10,000
31 March 2018	27,000
31 March 2017	(16,000)

The loss for 2017 was carried forward and offset against the profit for 2018. He had no other income or gains in any years from 2016/17 to 2019/20.

On 31 July 2023, he received £16,000 from a former supplier to settle a claim for faulty products that he had used on a job for a client during his sole trade. At the same time, he paid £3,600 to rectify the work done for the client and £2,600 for legal fees to collect the amount claimed from the former supplier. No amounts had been included in the final accounts.

From 1 April 2022, Luis has been employed on a salary of £55,000 a year.

Explain the treatment of the transactions in July 2023 and any beneficial claims that can be made as a result. Calculations are not required. (3)

11. Nabi sold the following in 2023/24:

- 1) February 2024, a shop that Nabi had used in his sole trader business from the date he bought it in March 2010 up to the date he ceased trading in May 2023.
- 2) March 2024, 10% of his 50% share in a trading partnership which Nabi joined in February 2022.
- 3) March 2024, a 10% share in the offices used by the partnership which he bought personally in January 2024.

Nabi has not made any previous gains which qualified for business asset disposal relief.

Explain whether or not the above disposals qualify for business asset disposal relief. (3)

12. Rocab Ltd has estimated augmented profits of £1,100,000 for its eight-month accounting period ending 31 March 2025. Its tax liability for the eight-month period is £209,000.

Calculate and explain the tax payments to be made by Rocab Ltd for the period ended 31 March 2025. (3)

13. In 2023/24 Sam started to make jewellery, which was sold online. The gross income was £850 and total costs were £300. In 2024/25 he expects the gross income received to be £1,600 and the total costs £750.

Explain to what extent Sam's income from the trade will be taxed in 2023/24 and 2024/25. (2)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

14. Gerly Ltd is a trading company which prepares accounts to 31 March each year. Within two months of each year end, the company receives a notice from HMRC to deliver a Corporation Tax return.

Year ended 31 March 2024

The accounting profits for the year ended 31 March 2024 are £156,000, after accounting for the following expenses and income:

	<u>Notes</u>	£
<u>Expenses</u>		
Party for customers		3,200
Safety clothing for employees		5,000
Employee training costs		1,700
Depreciation		8,600
Loss on disposal of cutting equipment	1	940
Interest on loan to buy solar panels	2	600
Interest on loan to buy Kind Ltd shares	3	500
<u>Income</u>		
Dividends received from Kind Ltd shares	3	4,000
Bank interest receivable		2,500

Notes

- 1) Gerly Ltd sold the cutting equipment for £3,500 in October 2023. The company had bought the equipment for £5,800 in May 2021.
- 2) In November 2023, Gerly Ltd bought the solar panels for £9,000 and spent a further £6,000 on their installation.
- 3) Gerly Ltd bought a 1% shareholding in Kind Ltd for £20,000 in December 2023.

At 1 April 2023, the tax written down value on the general pool was £10,000 and on the special rate pool was £14,000. The company claims the maximum capital allowances each year.

Year ended 31 March 2023

Gerly Ltd submitted its Corporation Tax return for the year ended 31 March 2023 on 18 June 2024.

Requirements:

- 1) **Calculate Gerly Ltd's tax-adjusted trading profits for the year ended 31 March 2024.** (8)
- 2) **Calculate Gerly Ltd's taxable total profits and Corporation Tax liability for the year ended 31 March 2024.** (5)
- 3) **State how Gerly Ltd's Corporation Tax returns must be submitted to HMRC and what must be submitted with the returns.** (2)
- 4) **For the Corporation Tax return for the year ended 31 March 2023, state and explain the latest date:**
 - a) **For HMRC to open an enquiry.**
 - b) **For HMRC to make a discovery assessment in the case of a deliberate action.**
 - c) **Until when Gerly Ltd must retain records if no enquiry is opened.** (3)

Ignore VAT.

Total (18)

15. Angie runs a farm as a sole trader.

2023/24

In May 2023 Angie sold five hectares of land for £100,000 to a neighbouring farmer. She paid legal fees of £1,000 on the sale. The land was part of a plot of 25 hectares that Angie had bought for £180,000 in October 2000 and had used in her trade since then. The remaining 20 hectares had a market value of £475,000 in May 2023.

In June 2023, Angie purchased a milking system (fixed plant) for £69,000 for use on the farm.

Angie's assessable trading profit for 2023/24 is £28,000 and she has no other income. She claims all available reliefs.

Other disposals

During other tax years, Angie disposed of the following assets at market value:

<u>Date</u>	<u>Asset</u>	<u>Purchaser</u>
August 2022	Painting	Deb, Angie's wife
December 2022	Watch	Richard, a third party at an auction
February 2023	Shares	Maie, Deb's business partner
May 2024	Table	Womak, a third party antique dealer

Each asset had decreased in value since Angie had bought it, and each was bought and sold for more than £6,000. Angie had not used these assets in her business.

Requirements:

- 1) Calculate Angie's chargeable gain on the sale of the land in May 2023, showing the amount of any relief claimed.** (4)
- 2) Calculate Angie's Capital Gains Tax payable for 2023/24, ignoring any relief for capital losses.** (3)
- 3) Explain why Angie cannot use losses from her other disposals listed to reduce her Capital Gains Tax payable in 2023/24.** (4)

Total (11)

16. Baptiste and Celine traded in partnership together for many years, sharing income and capital profits equally. The partnership prepares accounts to 30 June each year. Baptiste and Celine each have overlap profits of £8,000.

On 30 April 2023 the partnership sold a commercial building which had been used in the trade. The building was sold for more than it cost the partnership. The partners do not intend to invest in new assets.

On 1 October 2023 Doug joined the partnership. From that date, Baptiste and Celine were each allocated a salary of £12,000 per annum and the remaining profits were shared equally between Baptiste, Celine and Doug.

When Doug joined the partnership, his expertise meant that both sales and profits increased.

The tax-adjusted trading profits for the partnership are:

	£
Year ended 30 June 2023	50,000
Year ended 30 June 2024	80,000

Baptiste made drawings of £10,000 in December 2023. There were no other drawings by partners.

Continued

Continuation

The partnership had not previously been VAT-registered. However, under the historic test, compulsory registration was required, meaning the partnership had to start charging VAT from 1 January 2024.

Requirements:

- 1) **Explain the capital gains consequences of the commercial building sale in April 2023, including the reporting obligations to HMRC.** (3)
- 2) **Calculate each partner's trading profit allocation for the year ended 30 June 2023 and the year ended 30 June 2024.** (4)
- 3) **Calculate each partner's assessable trading profits for 2023/24, assuming no elections are made.** (4)
- 4) **Show the double entries to record the effect on each partner's current account of the profits and drawings for the year ended 30 June 2024.** (3)
- 5) **Explain:**
 - a) **What can be determined about the partnership's sales, from the fact it had to charge VAT from 1 January 2024, and**
 - b) **When the partnership had to notify HMRC of the need to register for VAT.** (3)

Total (17)

17. Carter LLP is an accountancy firm which intends to take on a new client, Porthaber Ltd, and provide tax compliance services.

Rick is Porthaber Ltd's only director and shareholder. He incorporated the company on 1 July 2023 subscribing £100 for 100 £1 ordinary shares. On the same date, the company opened a bank account which does not pay interest.

On 1 August 2023 Porthaber Ltd started to trade and paid Rick a monthly salary from this date. Rick received no taxable benefits. Porthaber Ltd engaged Geri as a freelance supplier in February 2024.

Porthaber Ltd prepared its first set of accounts for the period ended 31 March 2024.

On 31 October 2024 Rick subscribed for a further 2,000 £1 ordinary shares, with Porthaber Ltd calling up payment of £1,600 on that date.

The tax partner at Carter LLP is concerned that, as a new company, Porthaber Ltd may not have sufficient cash to pay the firm's fees. He wants Porthaber Ltd to pay a fee amount upfront in November 2024, before Carter LLP works on Corporation Tax compliance in December 2024.

Requirements:

- 1) **Explain the dates of Porthaber Ltd's first chargeable accounting period, and explain the company's obligation to notify HMRC of its initial chargeability to Corporation Tax.** (3)
- 2) **Explain the classes of National Insurance Contributions suffered by each of Porthaber Ltd, Rick and Geri, including the amounts on which these are charged. Limits and rates are not required.** (3)
- 3) **Explain the rights that a shareholder of ordinary share, such as Rick, would usually expect, and calculate Porthaber Ltd's issued share capital as at 1 November 2024.** (3)
- 4) **Explain the ethical actions Carter LLP should take regarding the upfront fee payment due from Porthaber Ltd in November 2024.** (3)

Total (12)