November 2024 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

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

1. **Seldaq Ltd**

Structures and buildings allowances

		£	
Planning permission	Not eligible	-	½
Demolition of storage building		8,200	½
Construction costs		280,000	½
Plumbing and heating systems	Not eligible – integral features	-	½
Eligible costs		288,200	
Allowance – 3% x 5/12 x 288,200	From date expenditure incurred	£3,603	1
			(3)

2. **Sue**

		£	
House costs			
Mortgage interest		9,800	
Council tax		5,600	
		15,400	
Less private use	25% x 15,400	(3,850)	1
		11,550	
Heat and light		13,700	
Food and drink		12,300	
		26,000	
Less reduction:			
Sue and Rosie alone	8 x 500	(4,000)	1½
Sue, Rosie and James	4 x 650	(2,600)	
		19,400	
Motor costs	7,600 x 0.45	3,420	½
Total costs allowed		£34,370	
			(3)

3. **Thomas**

	2020/21	2021/22	2022/23	2023/24	
	£	£	£	£	
Trade profits	-	25,000	65,000	-	½
Rental income	60,000	60,000	60,000	60,000	
	60,000	85,000	125,000	60,000	
Loss relief	(50,000)	(75,000)	(50,000)	-	3½
Net income after loss relief	£10,000	£10,000	£75,000	£60,000	
					(4)

Loss memo:

	£
2023/24	(175,000)
S72 ITA 2007	
2020/21 (max)	50,000
2021/22 (£25,000+£50,000)	75,000
2022/23 (balance)	50,000

Marks summary:

Allocate profits to correct year	½
Identify early years loss relief	**1**
Relief against 2020/21 then forward	**1**
Against net income	½
Limited to £50k (not trading)	**1**
	(4)

4. **Dawid**

The behaviour of Dawid appears to be careless **(½)** and so the maximum penalty will be 30%.

Note: The penalty can be reduced to nil if it is disclosed to HMRC voluntarily.

		£	
Cost claimed		31,250	
Correct claim	6% x 31,250 x 10/12 x 80%	(1,250)	**1½**
Error		30,000	
Potential loss revenue			
Income Tax	20% x 30,000	6,000	**½**
Class 4 National Insurance	9% x 30,000	2,700	**½**
		8,700	
Maximum penalty	30% x 8,700	£2,610	**½**

Max (3)

5. Jinan will be treated as trading for the following reasons:

1) **Profit motive**. There appears to be a profit motive to Jinan's activities: they are actively trying to increase the subscribers to their channel to maximise advertising revenue **(1)**.
2) **Frequency of transactions**. They have increased the number of videos that they are uploading, now uploading them weekly rather than occasionally as before **(1)**.
3) **Modification of asset.** They are buying t-shirts and then modifying them to increase the sales value **(1)**.
4) **Link to existing business.** The make-up activities are closely linked to the activities that Jinan currently carries out in their business **(1)**.
5) **Sales organisation.** Jinan has set up a website to facilitate additional sales **(1)**.
6) **Finance**. The website has been financed by a loan which will need to be repaid from t-shirt and other sales that Jinan will make **(1)**.

Marks will be given for relevant points. Max (4)

6. Gwyn has 30 days from 24 August 2024 to appeal against the amendment **(½)**. HMRC will then consider the appeal and either amend or confirm the original decision **(½)**. Gwyn will then have 30 days to appeal the result **(½)**, if she still disagrees. HMRC may offer a review by an officer not involved in the case **(½)**. If no review is offered or if Gwyn disagrees with the result of the review, she can appeal to the First Tier Tax Tribunal **(½)**. Max (2)

Points given for any relevant comments.

7. **Platic Ltd**

The basic tax point for the engineering services is when the services are performed: 20 June 2024 **(½)**. The invoice is issued more than 14 days later so the basic tax point is the date used. The input VAT is £800 x 20% = £160 **(½)**.

The basic tax point for the machinery is the date the machine is delivered: 26 June 2024 **(½)**. The payment of the deposit creates an earlier tax point of 23 April 2024 **(½)**. The input VAT is £2,400/6 = £400 **(½)**.

The invoice is issued within 14 days of the basic tax point (26 June 2024) and so the actual tax point is 2 July 2024 **(½)**. The input VAT is as follows:

	£	VAT	
Invoice total	13,600		
VAT at 20%	2,720	2,720	
Gross	16,320		
Less deposit	(2,400)	(400)	
Balance	£13,920	£2,320	**1**

(4)

8. **Zuquit Ltd**

The return for 31 May 2021 was filed late as it was due on 31 May 2022 **(½)**. There would have been a penalty of £100 **(½)**.

The return for 31 May 2022 was filed more than 3 months late and so a flat rate penalty of £200 was due **(½)**.

The return for 31 May 2023 was also filed more than 3 months late. As this was the third time in a row that a Corporation Tax Return was filed late **(½)**, then a penalty is due of £1,000 **(½)**.

An additional tax geared penalty is also due as the return was filed more than 18 months after the end of the accounting period **(½)** based on the tax outstanding at 30 November 2024: £4,600 x 10% = £460 **(½)**.

Max (3)

9.

Margli Ltd		£	
Sales proceeds		285,000	
Cost	169,000 x 285,000/(285,000 + 203,000)	(98,699)	**1½**
		186,301	
Indexation allowance	98,699 x (278.1 – 173.4)/173.4 98,699 x 0.604	(59,614)	**1½**
Chargeable gain		£126,687	(3)

10. **Luis**

The receipt from the claim is a post cessation receipt. The costs of correcting the work **(½)** and the legal fees **(½)** are both deducted from the receipt to give a net amount of £9,800. This will be taxable in 2023/24 **(½)** when the money was received. However, in 2023/24, Luis will be a higher rate tax payer **(½)**.

Looking at the results for the final years of trading it would be more beneficial to claim for the income to be taxed in 2019/20 as he appears to have unrelieved losses **(½)**. The claim will need to be made by 31 January 2026 **(½)** i.e. 12 months after 31 January following the end of the tax year of receipt.

(3)

Marks will be given for other relevant points

11. Disposals by Nabi:

    1) The shop qualifies for business asset disposal relief because it was used in his business **(½)**, and was sold within one year after cessation**(½)**.
    2) The partnership share qualifies as he has been a partner for more than 2 years **(½)** The percentage share is not relevant **(½)**.
    3) The share in the office doesn't qualify as an associated disposal **(½)** as he has not owned it for 3 years **(½)**.

(3)

12. Rocab Ltd will have to pay quarterly payments as the augmented profits exceed £1,000,000 (8/12 x £1,500,000) **(½)**. The instalments and due dates are as follows:

Date			£	
14 February 2025	14th day of month 7 from the start of the accounting period	3/8 x £209,000	78,375	**1**
14 May 2025	3 months later	3/8 x £209,000	78,375	**½**
14 July 2025	3 months and 14 days after the end of the accounting period	2/8 x £209,000	52,250	**1**
			£209,000	

(3)

13. In 2023/24, Sam has no taxable income as gross income is less than the trading allowance of £1,000 **(½)**.

    For 2024/25, Sam can choose to be taxed on either the gross income received of £1,600 less expenses of £750. This will give a taxable profit of £850 **(½)**. Alternatively, he can be taxed on the gross income of £1,600 less the trading allowance of £1,000. This will give a taxable profit of £600 **(1)**. (2)

November 2024 Examination

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Part II Suggested Answers

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14.

1)

Tax-adjusted trading profit for the year ended 31 March 2024

	£	
Accounting profits	156,000	
Add:		
Party for customers	3,200	**(1/2)**
Safety clothing for employees *give by omission if full calc performed*	-	**(1/2)**
Employee training costs *give by omission if full calc performed*	-	**(1/2)**
Depreciation	8,600	**(1/2)**
Loss on disposal of cutting equipment	940	**(1/2)**
Interest on loan – solar panels *give by omission if full calc performed*	-	**(1/2)**
Interest on loan – Kind Ltd shares	500	**(1/2)**
Less:		
Dividends received	(4,000)	**(1/2)**
Bank interest receivable	(2,500)	**(1/2)**
Capital allowances (17,640 (W1) – 3,500 (W2))	(14,140)	**(1/2)**
Trading profits	£148,600	

Working 1: Capital allowances

	AIA @ 100%	General pool	Special rate pool	Total allowances	
		£	£	£	
TWDV b/f		10,000	14,000		
Addition:					
Solar panels (£9k + £6k)	15,000				**(1/2)**
AIA @ 100%	(15,000)			15,000	**(1/2)**
WDA @ 18%		(1,800)		1,800	**(1/2)**
WDA @ 6%			(840)	840	**(1/2)**
		8,200	13,160	17,640	

Working 2: balancing charge on cutting equipment

Balancing charge (not via pool) **(1/2)** = £3,500 × 100% **(1/2)** = £3,500

(8 marks)

2)

Taxable total profits

	£	
Trading profits (part 1)	148,600	**(1/2)**
NTLR (£2,500 **(1/2)** – 500 **(1/2)**) *if added back £600 above, don't penalise again for deduction here, but must deduct £500*	2,000	
Taxable total profits *not including dividends*	150,600	**(1/2)**

Corporation tax liability for the year ended 31 March 2024:

	£
£150,600 @ 25% **(1/2)**	37,650
Less marginal relief:	
£(250,000 **(1/2)** – 154,600 **(1/2)**) × 150,600/154,600 **(1/2)** × 3/200 **(1/2)**	(1,394)
	36,256

Working: Augmented profits = £150,600 + £4,000 = £154,600 **(1/2)**

(5 marks)

3)

Submission of corporation tax returns

Each corporation tax return must be submitted online **(1/2)** with a set of accounts **(1/2)** tagged in Inline eXtensible Business Reporting Language (iXBRL) **(1/2)** plus detailed analysis / computations **(1/2)**.

(2 marks)

4)

Corporation tax return for the year ended 31 March 2023 – time limits

Enquiry: 31 July 2025 **(1/2)**. The return was late **(1/2)** as it should have been submitted by 31 March 2024/ within 12 months of the accounting period end **(1/2)**. HMRC has 12 months from the quarter date following the actual filing date to open an enquiry **(1/2)**.

Discovery assessment: 31 March 2043 **(1/2)** as in the case of a deliberate action HMRC has 20 years from the end of the accounting period to make the assessment **(1/2)**.

Retention of records: 31 March 2029 **(1/2)** being six years from the end of the accounting period **(1/2)**.

(maximum 3 marks)

Total 18 marks

15.

1)

Chargeable gain on sale of land

	£	
Proceeds	100,000	
Less legal fees	(1,000)	**(1/2)**
Net proceeds	99,000	
Less cost: £180,000 **(1/2)** × £100,000 **(1/2)** /(£100,000 **(1/2)** + 475,000 **(1/2)**)	(31,304)	
	67,696	
Less reinvestment relief	(37,696)	**(1/2)**
Chargeable gain (£99,000 **(1/2)** - £69,000 **(1/2)**)	30,000	

(4 marks)

2)

Capital Gains Tax 2023/24

	£	
Gain on sale of land used in trade	30,000	
Less annual exempt amount	(6,000)	**(1/2)**
Taxable gain (no loss deducted)	24,000	**(1/2)**
£22,270 (W) @ 10%	2,227	**(1/2)**
(£24,000 – £22,270) @ 20%	346	**(1/2)**
Capital Gains Tax 2023/24	2,573	

Working

Taxable income = £28,000 - £12,570 = £15,430 **(1/2)**

Basic rate band remaining = £37,700 - £15,430 = £22,270 **(1/2)**

(3 marks)

3)

Why Angie cannot use losses from the other disposals

Painting – no loss is available as this is a transfer to a spouse **(1/2)** and so takes place at nil gain nil loss **(1/2)**.

Watch – no loss is available as this is an exempt asset for capital gains tax **(1/2)** being a wasting chattel **(1/2)**.

Shares – Angie and Maie are connected persons **(1/2)** and so the loss which arises can only be used against gains on future disposals by Angie to Maie **(1/2)**.

Table – a loss arises but in the tax year 2024/25 **(1/2)** and capital losses cannot be carried back to an earlier tax year **(1/2)**.

(4 marks)

Total 11 marks

16.

1)

Disposal of partnership asset

The individual partners, Baptiste and Celine, are charged **(1/2)** on their share (50%) **(1/2)** of the gain on disposal being the proceeds less cost **(1/2)**, less their own annual exempt amount if available **(1/2)**.

The partnership tax return for 2023/24 must show the gain **(1/2)** and the allocation to the partners **(1/2)**.

Baptiste and Celine enter their share of the gain on their respective self-assessment returns for 2023/24 **(1/2)**.

The returns are due by 31 January 2025 **(1/2)**.

(maximum 3 marks)

2)

Partnership profit allocation

	Total	Baptiste	Celine	Doug	
	£	£	£	£	
Y/e 30.6.2023	50,000				
1:1		25,000	25,000		**(1/2)**
Y/e 30.6.2024					
1.7.23 – 30.9.23					
3/12 × 80,000*	20,000				**(1/2)***
1:1		10,000	10,000		**(1/2)**
1.10.23 – 30.6.24					
9/12 × 80,000*	60,000				
Salary: **(1/2)**					
9/12 **(1/2)** × 12,000		9,000	9,000		
	(18,000)				**(1/2)**
	42,000				

Split 1:1:1	14,000	14,000	14,000	**(1/2)**
Total for 30.6.2024	33,000	33,000	14,000	**(1/2)**

(4 marks)

3)

Assessable trading profits 2023/24

Baptiste and Celine

The following presentation works through the legislative steps but a briefer answer, demonstrating the correct workings, receives full credit.

For using own figures for individual partner's profits from part 2) throughout **(1/2)**

Step 1: Profits of the standard part, year ended 30 June 2023 = £25,000 **(1/2)**

Step 2: Profit of the transition part, period ended 5 April 2024 = 9/12 × £33,000 = £24,750 **(1/2)**

Step 3: Step 2 less overlap profits £24,750 - £8,000 = £16,750 **(1/2)**

Transition profits spread over five years = £16,750 **(1/2)** /5 **(1/2)** = £3,350 *no credit here if think no election means no spreading – do get next ½ mark on follow-through if add Step 1 and Step 3 to find answer.*

Tutorial note – as there are no losses, the transition profits are the result of Step 3, as the sum of Step 1 and Step 3 (ie Step 4) cannot be less than Step 3. No election has been made, so the transition profits are automatically spread over 5 years.

Step 6: Step 1 plus spread amount of transition profits £25,000 + £3,350 = £28,350 **(1/2)**

Doug

Period from 1 October 2023 to 5 April 2024 = 6/9 × £14,000 = £9,333 **(1/2)**

(4 marks)

4)

Double entries affecting current accounts

Dr	Profit and loss account		£80,000		
	Cr	Baptiste's current account		£33,000	
	Cr	Celine's current account		£33,000	
	Cr	Doug's current account		£14,000	**2**

1 mark for correct Dr and Cr narratives, 1 mark for amounts from part 2) ie for the y/e 30 June 2024

Dr	Baptiste's current account		£10,000		
	Cr	Bank		£10,000	**1**

(3 marks)

5)

VAT registration

The partnership's sales must include taxable supplies **(1/2)** that have exceeded the VAT registration threshold of £85,000 **(1/2)** over a previous 12-month period **(1/2)**.

For VAT to be charged from 1 January 2024, the threshold must have been exceeded for the 12 months ended 30 November 2023 **(1/2)**. The partnership then had 30 days to notify HMRC **(1/2)** ie by 30 December 2023 **(1/2)**.

(3 marks)

Credit is possible for other reasonable points, for example, that the sales cannot all be zero-rated.

Total 17 marks

17.

1)

First accounting period and notification of chargeability

The first accounting period begins on 1 August 2023 **(1/2)** when the company starts to trade as there is no source of chargeable income before then **(1/2)**. The first accounting period ends on 31 March 2024, the end of the company's period of account **(1/2)**.

Porthaber Ltd must give written notice to HMRC **(1/2)** within three months of the start of the first accounting period **(1/2)** so by 1 November 2023 **(1/2)** stating when the accounting period began **(1/2)**.

(maximum 3 marks)

2)

National Insurance Contributions

Porthaber Ltd suffers Class 1 secondary NIC **(1/2)** on salary payments to Rick *not Geri* **(1/2)**.

Rick suffers Class 1 primary NIC on his salary **(1/2)**.

Geri suffers Class 4 NIC **(1/2)** on her trading profits which will include income from Porthaber Ltd **(1/2)**. She also pays Class 2 NIC **(1/2)**.

(3 marks)

3)

Ordinary shares and issued share capital

Ordinary shares usually confer rights to shareholders such as Rick of:

- votes **(1/2)**
- dividends from distributable profits **(1/2)** once any preferential dividends have been paid **(1/2)**
- distribution of assets on a winding up **(1/2)** in proportion to the nominal value of his shares **(1/2)**

Porthaber Ltd has issued share capital of £100 **(1/2)** + £2,000 **(1/2)** = £2,100.

(maximum 3 marks)

4)

Payments in advance

Carter LLP should include in the engagement letter with Porthaber Ltd **(1/2)** the terms of the payment in advance **(1/2)** and any circumstances in which it might become repayable **(1/2)** with or without interest **(1/2)**.

Carter LLP should ask for an amount which is reasonable in terms of the likely fee for the work **(1/2)**.

If Carter LLP does not carry out the work, it must refund the amount paid **(1/2)**.

The firm should properly account for any VAT on the advance payment **(1/2)**.

Tutorial note

If the payment in advance is reasonable for the compliance work being done, it is unlikely to be a substantial payment (and so the guidance regarding substantial payments is unlikely to be relevant). Credit is available for making this point.

(maximum 3 marks)

Total 12 marks