

Institution **CIOT - ATT**
Course **ATT Paper 2 Business Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	35	181	209
Section 2	32	134	156
Section 3	142	695	808
Section 4	128	530	656
Section 5	202	881	1083
Section 6	67	309	376
Section 7	67	235	297
Section 8	74	279	340
Section 9	10	79	82
Section 10	15	69	83
Section 11	99	389	488
Section 12	56	267	323
Section 13	61	250	311

Answer-to-Question- _1_

Planning permissions			0
Demolition of old building			8,200
Construction costs			280,000
Plumbing and heating systems			0
TOTAL			288,200

Only from when qualifying activity starts so 1 february 2024

$$288,200 \times 3\% \times 2/12 = \pounds 1,441$$

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

Car	7,600 x 0.45	3,420	
Mortgage interst	x0.75	7,350	
Heat and light	x0.75	4,200	
Food and drink	NO info on how much for guests vs private so disalow all	0	
Total		14,970	

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3_

	31 march 2022	31 March 2023	31 March 2024
Profit/loss	25,000	65,000	(175,000)
Rental income	30,000	60,000	60,000
Total	55,000	125,000	115,000
Ofst loss against total income in the year		(115,000)	(60,000)
Remaining profit/ loss	55,000	10,000	(115,000)
Less PA	(12,570)	Wasted	wasted
Total	42,430	10,000	0

Offset against total income for the year first then go back 12 moths and offset against total income for that year. Then carry remaining loss forward

All loss used up by offsetting against total profits for the year and then carrying back 12 months.

You would need to claim to to set the trading loss against total profits of the loss-making accounting period and then a claim to carry back any unrelieved losses agaisnt total profits of the previous 12 months.

Current period and carry back claims are all or nothing so PA is wasted

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- 4

David can't deduct any of the car's value from his profits as this needs to be done via capital allowances.

Careless action like this can bring a maximum penalty of 30%. The minimum penalty depends on if it is a prompted disclosure by HMRC or an unprompted disclosure. If it's unprompted then you can get away with a 0% penalty whereas if it's prompted by HMRC this can go up to 15%. This percentage is calculated on the total lost revenue by HMRC.

If we were to add the full price of the car back on this would be £31,250 and this would have been taxed at the basic rate of 20%.

$$31,250 \times 20\% = 6,250$$

Therefore the maximum penalty can be $6,250 \times 30\% = \text{£}1,875$

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question- 5

The reason that income earned by Jinan will be treated as trading income is the following:

Profit seeking motive: We can see that Jinan has a profit seeking motive as she has started to upload videos weekly to maintain interest and most importantly to increase advertising revenue showing a profit seeking motive.

Repetition/frequency: We can see that this is not just a one off video that went viral it is clear that this is happening weekly and therefore shows this is a trade and not just a one off.

Similar trading activities: We can see that Jinan also has a beauty salon and this shows that the hobby Jinan does it very similar to her trade and benefits her trade so this shows it is not an independent hobby and is similar to her trade.

Financing arrangement: We can see that the cost of the website was financed by a bank loan and this is not the sort of thing that you would do for a hobby. Get a bank loan is something a business is likely to do especially to set up a website to sell t-shirts. Therefore we can see from the financing arrangement it is very clearly a trade.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- 6

If Gwyn doesn't agree to the ammendment that HMRC have made regarding her self assesment tax return then she can challenge the decision by appealing. Notice of appeals must be given in writing within 30 days of the ammendment. THE notice should also give grounds for the appeal.

Therefore within 30 days from the 24 August 2024 Gwyn needs to write a notice of appeal to HMRC.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question- 7

The tax point for VAT is the first of the following:

- Date of supply
- Invoice date
- Date of payment

1) The date of supply is 20 June 2024
The date of invoice is 8 July 2024
The date of payment is 9 July 2024

2) Date of supply is 26 June 2024
Date of invoice is 13,600
Date of payment is 30 July 2024

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question- 8

The filing deadline for the corporation tax period is 12 months after the end of the period of account.

Year end	Date filed	How late	Penalty
31 May 2021	20 July 2022	Over 1 month	£100
31 May 2022	11 October 2023	over 4 months late	£200
31 May 2023	14 Decemer 2024	Over 6 months late	£200 plus 10% of unpaid tax

31 MAY 2023 - £200 + (4,600 x 10%) = £660

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9_

Sale proceeds		285,000	
Less:cost	169,000 x 285,000/(285,000+ 203,000	(98,699)	
Gain		186,301	

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question- 10

Loss relief claim, offset in current year then go back 12 months then carry forward

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question- _11_

1) Yes this will be eligible for BADR relief as it has been used in the business for over 2 years prior to disposal and Nabi has ceased trading. It is also a qualifying business asset.

2) Yes Nabi will be eligible for BADR relief on this as he is selling apart of the business that he owns over 5% of the shares in and has held them for over 2 year prior to sale, And it is an eligible trading partnership.

3) No this would not be eligible as he has not held the shares for over 2 years

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

Answer-to-Question- 12

Qualifying as a large company $1,500,000 \times 8/12 = 1,000,000$
Therefore qualifies as a large company and needs to pay in installments.
Accounting period started in August

1st installment - 14th February 2025 - £78,375

2nd installment - 14th May 2025 - £78,375

3rd installment - 14th July 2025 - £78,375

$3/8 \times 209,000 = £78,375$

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question- 13

2023/24 - This won't be taxed as it is under the trading allowance threshold of £1,000

2024/25 - This exceeds the threshold and is likely to be taxed. Even if Sam were to claim the trading allowance he would still be £600 over the limit and would therefore be taxed on this at the income tax band rate he is in.

-----ANSWER-13-ABOVE-----

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Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 14	263	1216	1422
Section 15	128	568	681
Section 16	193	951	1118
Section 17	268	1172	1436

 -----ANSWER-14-BELOW-----

Answer-to-Question- _14_

1)

Profits			156,000
Add:			
Party for customers	Not allowable		3,200
Safety clothing for employees	allowbale as it's saftey closthing		0
Employee training costs	Allowable		0
Depreciation	not allowable		8,600
Loss on disposal	Add back		940
Interest on loan for soalr pannels	Likely used for business use		0
Interest on loan to buy KInd shares	Not business use		500
Less CA			(11,010)
Total trade profits			158,230
Dividends form Kind LTd shares			4,000
Bank insterst			2,500
Total			164,730

Capital allowances

	MRP	SRP	AIA	CA
WDV B/f	10,000	14,000		
Cutting equipment	(3,500)			

Solar pannels			9,000	
Total	6,500	14,000	9,000	
MRP @18%	(1,170)			1,170
SRP @ 6%		(840)		840
AIA 100%			(9,000)	9,000
C/F	5,330	13,160	0	
CA				11,010

2)As shown above the total taxable profits are £164,730

The company will get marginal relief due to their profit amount:

$$3/200 \times (250,000 - 164,730) \times (164,730/164,730) = 1,279.05$$

$$164,730 \times 25\% = 41,182.5 - 1,279.05 = 39,903.45$$

3) The corporation tax return will be submitted electronically to HMRC. A CT600 form must be submitted as well as the compapnys accounts for the financial year the return relates to and any supplementary documents needed.

4) a) This will be 12 months from the actual filing date

b) The latest date for a discover assesment depends on certain factors:

- General rule is 4 years from end of AP
- If it was careless them 6 years from end of AP
- If it was deliberate action then it is 20 years from end of AP

c)Record must be kept for 6 years from the end of the AP

 -----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question- _15_

1)

Proceeds			100,000
Legal fees			(1,000)
Cost	w1		(31,304)
Gain			67,696

w1

Allowable cost = $100,000 / (100,000 + 475,000) \times 180,000 = 31,304$

2) $50,270 - 28,000 = 22,270$ of BRB remaining

CGT payable $67,696 - (6,000) = 61,696$

$22,270 \times 10\% = 2,227$

$39,426 \times 20\% = 7,885$

Total CGT payable = 10,339

3) The reason she cannot use these losses is because:

- The painting was sold to a connected person and losses on disposal to connected persons are not allowable
- The watch Likely a personal use asset
- The loss on the shares are sold to a connected person and therefore loss on disposal to a connected person can only be used against future gains to that person
- The table as it was sold to an antique dealer.

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question- 16

1) The capital gains consequences of the sale of the commercial building is that a capital gain will arise and this will be chargeable on both of the partners individually. The charge will be split equally between the partners as this their profit share agreement.

2) /3)

	Baptise	Celine	
June 2023	25,000	25,000	

			Baptise	Celine	Doug
3 months before Doug	80,000 x 3/12 = 20,000		10,000	10,000	
Salary	12,000 x 9/12		9,000	9,000	
Remaining profits split equally			14,000	14,000	14,000
Total			33,000	33,000	14,000
Drawings				10,000	
Total				43,000	

4)

5) a) It can be determined that cumulative taxable supplies must have exceeded the registration limit of £85,000 during the historic test and therefore they had to start charging VAT from 1 January. It can be determined that they increased beyond the VAT threshold when completing the historic test.

b) The partnership would have had to notify HMRC of the need to register for VAT within 30 days of when of when taxable supplies exceeded the VAT registration limit. The business will then be registered from and VAT charged on supplies in the following month. It is likely HMRC was notified in December 2023.

-----ANSWER-16-ABOVE-----

-----ANSWER-17-BELOW-----

Answer-to-Question- 17

1) The company must notify HMRC within 3 months of the start of its first accounting period to notify chargeability to corporation tax. An accounting period will begin when it becomes within charge of corporation tax so in this case it would be 1 August as this is when the company began to trade and became within charge to corporation tax as before this the company has no income as even the bank account does not pay interest.

2) The company will have to pay Class 1 NIC on any employees so this will be on the salary it pays to any employees and also any taxable benefits paid to employees.

Rick as an employee will have to pay Class 1 NIC on salary and bonuses from the business. It is likely that the business may pay the NIC contributions for Rick through payroll but it depends how this is set up.

Geri will have to pay class 2 and class 4 NICs as he is self-employed and these will be based on profits that he makes.

3) The rights you would usually expect are the following:

- Rights to vote
- Rights to dividends
- Rights to share in the company's asset liquidation
- Rights to information

$100 + 2,000 = 2,100$ £1 Ordinary shares

4) The ethical actions they should take is full disclosure of fees

- They should also have a written agreement including the upfront fees and other general practices of business.
- There should be a refund policy if services are not carried out in relation to the written agreement or engagement letter.

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