

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	42	234	258
Section 2	47	233	260
Section 3	69	342	381
Section 4	120	496	598
Section 5	141	602	739
Section 6	76	331	405
Section 7	117	479	579
Section 8	204	810	1007
Section 9	23	127	140
Section 10	122	543	663
Section 11	156	662	814
Section 12	32	179	195
Section 13	85	379	462

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

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

Answer-to-Question- 2

motor expenses						
7,600 * 0.45		3,420				
house:						
total cost of running premise						
heat and light		13,700				
food and drink		12,300				
mortgage int & council tax		not allowable for this				
		26,000				
1 floor used privately	(350)*8	(2,800)				
James + floor used privately	(500)*4	(2,000)				
flat rate expense		21,200				

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

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

Answer-to-Question- 3

losses in first 4 tax years can be used against net income of preceeding 3 tax years						
		y/e march 2024	y/e march 2023	6 months to march 2022		
trading income			65,000	25,000		
loss relief against trading income			(65,000)	(25,000)		
rental income		60,000	60,000	60,000		
loss relief			(35,000)	(50,000)		
net income		60,000	25,000	10,000		

loss memo:						
total	175,000					
6 months to march 2022	(75,000)					
	100,000					
y/e march 2023	(100,000)					
	nil					

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

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

Answer-to-Question- _4_

The penalty that would be payable by him would depend on whether the deduction of the whole of the cost of the car was deliberate or not. If this was not deliberate, then it could be considered careless action by Dawid and the maximum penalty he could receive from this would be 30% of the potential lost revenue. It is most likely that this was just a careless mistake as he had only started to trade in that year, so it is likely that he was not aware of the rules.

CAs			special		CAs	
additon						
car			31,250			
WDA @ 6%			(1,875) * 80%		1,500	
31,250 - 1,500	29,750					
15,000 + 29,750	44,750					
29,750 @ 20%	5,950 * 0.3	1,785	penalty			

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

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

Answer-to-Question- 5

- 1: There can be considered to be a profit seeking motive from their income as a website has been set up to sell t shirts relating to their videos to make income.
- 2: There is a connecting between an existing trade, as they trade as a beauty salon, and then sell t shirts with make up designs on them, meaning there is a link.
- 3: There is a financing arrangement with the bank loan to set up the website, as this means the website has been purchased for the short term and they would be unable to fund this without selling the t shirts, meaning it can be considered trading.
- 4: Nature of the asset, as they are selling t shirts with their own designs on it, the nature of this asset means it can be considered as only bought with the reason to sell.

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

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

Answer-to-Question- 6

HMRC are able to amend tax returns within 9 months of receiving them, as this has been done by the 24 August 2024, they are allowed to do this.

However, as she disagrees with this amendment, she is able to challenge the decision by appealing. Notices of the appeal must be given in writing within 30 days after the amendment and this notice must give the grounds for appeal and these are first sent to HMRC.

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

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

Answer-to-Question- 7

1)
 The basic tax point is the date that the work was completed, which was 20 June 2024. This can be overridden if there is a receipt of payment or tax invoice issued before this date, or if an invoice is issued within 14 days after this date, however the invoice was issued after 14 days, so the basic tax point would stay as 20 June 2024.

2)
 Deposits and the balance paid are considered separately.
 The tax point for the deposit would be 23 April 2024.
 The tax point for the balancing payment would be 2 July 2024

1)						
input tax						
800 * 0.2		160				
2)						
deposit						
2,400 * 0.2		480				
machine						
11,200 * 0.2		2,240				

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

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

Answer-to-Question- _8_

		31 aug				

Year ending 31 May 2021:

The due date for this CT return to be filed would be 31 May 2022, as this is a year after the end of the period of accounts. As the CT return was filed after this date there would be an immediate flat rate penalty of £100.

Year ending 31 May 2022:

The due date for this CT return to be filed would be 31 May 2023, as this is a year after the end of the period of accounts. As the CT return was filed after this date there would be an immediate flat rate penalty of £100. However it is filed later than 3 months after the deadline to file which would be 31 August 2023, meaning the penalty would double to £200.

Year ending 31 May 2023:

The due date for this CT return to be filed would be 31 May 2024, as this is a year after the end of the period of accounts. However as this is the company's third consecutive offence, the flat rate initial penalty would increase to £500, also as the CT return was filed later than 3 months after the due date, this penalty would double to £1,000

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

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

Answer-to-Question- 9

proceeds		285,000				
cost	285,000 / (285,000 + 203,000) * 169,000	(98,699)				
indexation						
98,699 * (278.1 - 173.4)/17 3.4	0.604 * 98,699	(59,614)				
gain		126,687				

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

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

Answer-to-Question- 10

The receipt of the new income of £16,000 is a post-cessation receipt and is initially taxed in the year that the payment is received. As both of the £3,800 and £2,600 are in relation to remedying defective work and the legal costs in connection to the claim, this are both qualifying expenditure for post-cessation expenses, as they are paid within 7 years of him ceasing to trade. These expenses will then be offset against the £16,000 he received at the same time. Then it is also possible for him to elect for the remaining income to be taxed in the year of cessation, instead of the current tax year, as the loss incurred in that tax year can offset this income.

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

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

Answer-to-Question- _11_

The shop would not be able to claim BADR, this is because it is not a material disposal of his business and there has not been, so it would not be able to qualify as an associated disposal.

The sale of his share in the partnership would be eligible for BADR, this is because it is his personal trading company, in which he has owned more than 5% of the partnership and this has been satisfied for over 2 years, meaning BADR is available.

The share in the sale of offices used in the partnership would not qualify for BADR, this is because, even though they would be an associated disposal as they have been sold in conjunction with the shares in his partnership, the asset has not been used by the business for 2 years, or owned by him for 3 years, so would not qualify.

The claim for BADR must be made by 31 January 2026.

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

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

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

Answer-to-Question- 13

Sam's income will not be taxable in 2023/24, this is because the income that he made would be able to be covered by the trading allowance of £1,000 instead of using the costs, meaning his income would be nil as a loss can not be made when using the trading allowance.

In 2024/25, it would still be more benficial for him to use the trading allowance rather than the expenses, however £600 of income would still be received, which would be chargeable to income tax

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

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Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 14	290	1337	1525
Section 15	188	834	984
Section 16	384	1841	2098
Section 17	336	1444	1760

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

Answer-to-Question- _14_

net income		156,000				
addbacks:						
party for customers		3,200				
safety clothing		nil				
employee training costs		nil				
depreciation		8,600				
loss on cutting equipment		940			need to use for gains section	
solar pannels		nil	is a trading loan		need to do CAs on this	
kind shares		500			need to include in LR	
		169,240				
deductions						
divs from kind		(4,000)	not allowable			
bank int		(2,500)	use in LR		LR	
		162,740				

CAs		(17,010)				
trading profits		145,730				
CAs						
12 months to 31 mar 24						
		FYA	AIA	General	Special	CAs
wdv b/f				10,000	14,000	
additons						
solar			15,000			
disposals						
cutting equipment				(3,500)		
total			15,000	6,500	14,000	
AIA @ 100%			(15,000)			15,000
WDA @ 18%				(1,170)		1,170
WDA @ 6%					(840)	840
c/f			nil	5,330	13,160	
						17,010
2)						
trading income		145,730				
non trading income LR:						
kind shares loan int	500					

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3)

Their CT600 return and financial statements of the company must be filed online with HMRC 12 months after the period of account has ended. CT returns must be filed online, with a full copy of the company accounts, suitably tagged in iXBRL format.

4)

a) As the CT return for 31 March 2023 was filed late, the latest date HMRC can make an enquiry by is 31 July 2025, which is a year after the next quarterday of the late filing.

b) HMRC have up to 20 years from the end of the AP to make a discovery assessment in the case of deliberate action.

c) Records must be kept by the company for 6 years from the end of the AP.

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

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

Answer-to-Question- _15_

1)						
gain on land - part disposal		as sole trader no indexation				
gross proceeds		100,000				
legal fees		(1,000)				
net proceeds		99,000				
allowable cost	100,000 / (100,000 + 475,000) * 180,000	(31,304)				
gain		67,696				
2)						
CGT:						
		BADR	non	res		
land			67,696			
AEA			(6,000)			
			61,696			
50,270 - 28,000	22,270					
61,696 - 22,270	39,426					
22,270 @ 10%	2,227					

39,426 @ 20%	7,885					
CGT payable	10,112					

3)
As the painting is being sold to her wife, this transaction between spouses is considered to have happened at no gain, no loss. Meaning that she will not be entitled to a CGT loss to carry forward.

The watch is considered to be a wasting chattel as it is considered moveable plant and machinery. Wasting chattels are exempt from CGT, so due to this reason she will not have had a loss on the sale of the watch.

Gift relief could have been taken on the shares, so that she would not have any chargeable gain, this is because her business partner is a connected person, so this could be claimed in order to roll forward the gain, so no loss relief would be available

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

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

Answer-to-Question- _16_

1) Partnerships do not pay CGT, instead any gain that is made by the partnership, such as the gain on the commercial building is charged on the individuals self-assessment tax return, however details must also be included on the partnership tax return. One the sale of the building, each partner is deemed to have disposed of their own fractional share in the property. These proceeds are the allocated to the partners using an agreed capital sharing ratio. This is then chargeable to each partner individually on their self-assessment tax return.

2)

year ending 30 June 2023		total	Baptiste	Celine		
income		50,000				
50:50		(50,000)	25,000	25,000		
year ending 30 June 2024		total	Baptiste	Celine	Doug	
income		80,000				
1 July 23 to 1 Oct 23	80,000 * 3/12	20,000				
50:50		(20,000)	10,000	10,000		
1 Oct 23 to 30						

june 2024						
income	80,000 * 9/12	60,000				
salary	12,000 * 9/12	(18,000)	9,000	9,000		
drawings		(10,000)	10,000			
shared equally		(32,000)	10,667	10,667	10,667	
trading profits			39,667	29,667	10,667	

3)						
Doug:						
trading profits		10,667				
Celine:						
step1:						
standard profit		25,000				
step2:						
transition al	29,667 * 9/12	22,250				
step 3:						
deduct overlap	22,250 - 8,000	14,250				

4)

Doug:						
Dr	p&l t a/c	10,667				
Cr	partners current account		10,667			
Celine:						
Dr	p&l t a/c	27,850				
Cr	partners current account		27,850			
Baptiste:						
Dr	p&l t a/c	29,350				
Cr	partners current account		29,350			
drawing s:						
Dr	partners current account	10,000				
Cr	bank		10,000			

5)

a)

The historic test looks at past taxable supplies in the preceding 12 months and is carried out at the end of every calendar month. If cumulative taxable supplies in the preceding 12 months exceed the VAT registration limit of £85,000, then the business will need to register for VAT. This means that on the 31 December 2023, the business had sales greater than £85,000 throughout the past year.

b) HMRC will have needed to be notified by the partnership within the next 30 days after the historic test is met at the end of December 2023.

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

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

Answer-to-Question- _17_

1)
 The first AP would begin on the earliest of the commencement of trade by the company, or the acquisition of a source of income. As the bank account that was open on the 1 July 2023 does not pay interest, this would not be a source of income. Therefore the first AP would start on 1 August 2023 when the company started to trade. Then, the first AP would end on the earliest of the end of the companies period of account, or 12 months after it began. As the POA ends first on 31 March 2024, this is when the AP would end. The company must also notify HMRC of its chargeability within 3 months of its first AP, which would be before 1 November 2023.

2)
 Rick would have to pay Class 1 Primary NICs on his salary that he receives from the company at a rate of 12% on earnings between the primary and upper thresholds and 2% on anything above the upper threshold.

Porthaber would have to pay Class 1 Secondary NICs on Rick's salary at a rate of 13.8% on earnings above the secondary threshold.

Geri is considered self-employed as she is a freelancer, so she will have to pay Class 2 NICs of £3.45 for each week she works. She will also have to pay Class 4 NICs at 9% on any profits between £12,570 and £50,270 and 2% on any profits above that.

3)
 The rights of a shareholder of ordinary shares should expect, equal voting rights, profit entitlement and capital rights to those that hold them.

		shares	price			
1 July 23		100	100			
31 Oct 24		2,000	2,000			

		2,100 shares issued				

4)
Before undertaking the new work with this client Carter LLP should ensure that the client understands the basis on which fees will be charged and how expenses incurred on behalf of the client will be treated. This should also be noted in the engagement letter and made clear with the client in an initial meeting.