Practical Tax People
Association of Taxation Technicians

May 2017 Examination

PAPER 2

Business Taxation and Accounting Principles

Part II Suggested Answers

Question 1

Joel		£	
Profit for the period		57,000	
Gifts of wine for customers		750	½
Motoring penalty		80	½
Sales value of stock taken for private use	(£600 x ½)	300	1
		58,130	

Capital allowances

		FYA	**Main pool**	**Special rate**	**Business**	**Allowances**	
		£	**£**	**£**		**£**	
WDV b/f			6,000	8,000			
Addition		16,000					
FYA		(16,000)			(60%)	9,600	1
Sales proceeds				(6,500)			½
		AIA		1,500			
Additions							
Van		10,000					
Mower		6,000					
		16,000					
AIA		(16,000)				16,000	½
Sales proceeds			(800)				½
			5,200				
WDA	18% x 18/12		(1,404)			1,404	1
WDA*	Small pool			(1,500)		1,500	1
			3,796	Nil			
Total allowances						£28,504	

* The maximum balance for a small pool write off is £1,000 x 18/12 = £1,500

2016/17	£	
Profit for the period	58,130	
Capital allowances	(28,504)	½
	29,626	
Overlap relief (6/9 x £13,500)	(9,000)	1
	20,626	
Income tax payable		
Self employed income	20,626	
Personal allowance	(11,000)	½
	9,626	
Tax:		
Income tax at 20%	1,925	½
Class 2 National Insurance contributions (£2.80 x 52)	146	½
Class 4 National Insurance contributions (£20,626 - £8,060) x 9%	1,131	½
Total payable	£3,202	

Total (10)

Question 2

1)

Bridge Ltd		£	£	
Profit and Loss Account for the year ended 30 June 2016				½
Sales	137,000 + 5,000		142,000	½
Opening stock		6,000		
Purchases		35,750		
Closing stock (W1)		(15,250)	(26,500)	½
Gross profit			115,500	
Expenses				
Wages	90,000 + 2,000	92,000		½
Rent	4,000 – 500	3,500		½
Electricity and gas		1,200		
Telephone		1,250		
Office expenses	2,000 – (1/4 x 1,200)	1,700		½
Motor expenses		3,000		
Accountancy		900		½
Provision for repairs		2,500		½
Depreciation		1,500	(107,550)	½
Profit before tax			7,950	
Corporation Tax			(1,750)	½
Retained profit			6,200	

Explanations:

The repairs meet the requirements for a provision as the costs incurred relate to an event that occurred before the end of the year. (1)

The claim is only contingent: it is not certain that the cost will be incurred and therefore no provision is required. (1)

Bridge Ltd					
Balance Sheet as at 30 June 2016					½
Fixed assets		Cost	Depreciation	NBV	
		£	£	£	
Land and buildings		80,000		80,000	½
Plant and machinery		16,000	7,500	8,500	½
		96,000	7,500	88,500	
Current assets					
Stock	**W1**		15,250		
Debtors	11,000 + 500		11,500		½
Bank account			8,000		
Prepayment	(1/4 x 1,200)		300		½
Accrued income			5,000		½
Current liabilities			40,050		
Creditors		92,000			
Corporation tax		1,750			½
Accruals	900 + 2,000	2,900			½
Provision for repairs		2,500	(99,150)	(59,100)	½
				£29,400	
Financed by:					
Share capital				100	
Profit and Loss reserve	23,100 + 6,200			29,300	½
				£29,400	

W1 Stock

	Quantity	Value	Cost per unit	Sold	Balance	
		£	£			
Opening stock	20	6,000	300	20	-	½
Purchase 23 July 2015	40	8,000	200	40	-	½
Purchase 31 Dec 2105	25	7,500	300	20	5	½
Purchase 31 Mar 2016	50	13,750	275	-	50	½

Stock at 30 June 2016

5 x £300	1,500	½
50 x £275	13,750	½
	£15,250	

Note – The above calculation uses FIFO basis. Candidates who used a different method of stock valuation received equal credit.

Max (14)

2)

The going concern basis does not apply if management intends to liquidate the entity (½) or to cease trading (½) or has no realistic alternative but to do so (½).

Management should take into account all available information (½) about the future which is at least 12 months (½) from the date the accounts are authorised (½).

Max (2)

3)

Memorandum to the directors

From A Tax Adviser

On 1 May 2017

Approval and filing of accounts (½)

The company's board of directors must approve the accounts (½) and the balance sheet must be signed by a director on behalf of the board (½).

A company must file its accounts and its report with the Registrar within a maximum period reckoned from the accounting reference date (½). The standard period is six months for a public company (½) and nine months for a private company (½).

The accounts to be filed must also include the auditor's report (½), the directors' report (½), a strategic report (½) and a report of directors' remuneration (½).

Max (4)

Total (20)

Question 3

1)

Late notification penalty

An individual has an obligation to notify HM Revenue & Customs if they are chargeable to tax by 5 October following the end of the tax year (½). So, in this case, Lutz should have advised HM Revenue & Customs by 5 October 2014 (½). As he failed to do so, he may be liable to a penalty.

The penalty is chargeable by reference to the potential lost revenue (½) and is applied to the balance of tax outstanding at 31 January following the end of the tax year (½), so, as Lutz has paid all tax in March 2017, a penalty will be calculated on all years from 2013/14 to 2015/16 (½).

The percentage of penalty charged depends on the behaviour of the tax payer (½): whether the disclosure was prompted or unprompted (½) and whether the errors were deliberate (½) or deliberate and concealed (½).

In this case, it looks as though the disclosure was unprompted (½). As the disclosure was more than 12 months after the tax was first due (½), then there will be a minimum penalty of 10% (½).

If HM Revenue & Customs find that the error was deliberate, then the maximum penalty could be as much as 70% (½). There does not appear to be evidence that the error was concealed (½).

The penalty can be reduced depending on the quality of the disclosure given (½). Quality is defined in the legislation as having the attributes of timing, nature and extent of the disclosure. (½) Reductions are given for telling HM Revenue & Customs of the error (½), giving the relevant information to allow HM Revenue & Customs to quantify the error (½), and helping (i.e. allowing HM Revenue & Customs access to records to check how much tax was unpaid). (½) As Lutz has asked us to make full disclosure, then he should be able to expect a significant reduction (½).

Max (9)

2)

A client may ask a member to advise on an arrangement offered to the client by another adviser. No commissions should be accepted where a member is providing tax advice on a third party's arrangement as it would undermine the member's objectivity (1).

The member should consider carefully whether he is qualified to advise the client on the potential technical and reputational risks and rewards of the arrangement (1). If the member does not have the relevant experience, he should seek specialist support (½) or recommend that the client obtains advice elsewhere (½). The member may be able to advise on the practical issues involved in participation in a tax planning arrangement, whilst advising the client to take advice elsewhere on the technical merits of the legal interpretation relied upon (1).

If the member does not have the relevant expertise (½) or if the promoter does not release all the legal opinions and implementation details to allow an assessment to be made (½), the member should inform the client that they cannot advise on the arrangement (½) and the member should document this (½).

In advising on the third party's arrangement the member should consider the practical risks and implications (½).

In addition the member should ascertain whether the third party is subject to a monitoring notice under the POTAS regime (½) and the member's advice should include the implications of a monitoring notice for the client should the client wish to proceed. (½) It is difficult to envisage any circumstance in which it would be appropriate for the member to recommend the arrangement if the third party is subject to a monitoring notice (1).

The member should also make an assessment of and advise the client on whether there is a sustainable filing position for tax return purposes (½). The member may suggest amendments to the planning. If so, the member should consider the risks and implications of the amended planning, including the position under DOTAS (½). Max (4)

Total (13).

Question 4

1)

a) The first grant of a major interest in a residential property is zero rated. (1)
b) The rental of a residential property is exempt. (1)
c) The sale of a second hand house is also exempt. (1) (3)

2)

Buzzard Developments Ltd
Corporation Tax computation
Year ended 30 September 2016

	£	
Trading profit	120,000	
Legal costs	1,200	½
Depreciation	3,200	½
Adjusted profit	124,400	
Capital allowances (W1)	(4,680)	½
Trading profit	119,720	
Less trading loss b/f (W2)	(67,000)	½
	52,720	
Chargeable gain (W3)	71,657	½
Rental income (W4)	18,500	½
Deficit on loan relationships (W5)	(3,000)	½
Total taxable profits	£139,877	
Tax at 20%	£27,975	½

W1 Capital allowances

Capital allowances	Main pool	Allowances	
	£	£	
WDV b/f	8,000		
Addition not qualifying for AIA:			
Director's car	18,000		½
	26,000		
WDA 18%	(4,680)	4,680	½
WDV c/f	21,320		
		4,680	

W2 Loss memorandum

		£	
Y/E 30/9/14	Loss fully relieved	-	
Y/E 30/9/15	Loss for the year	(85,000)	
	Set against other income	18,000	
	Loss c/f to 30/9/16	£(67,000)	½

W3 Chargeable gain

		£	£	
Proceeds (Dec 15)			215,000	
Legal costs			(1,200)	½
			213,800	
Cost (Sep 11)		85,000		
Improvements (Jun 13)		47,000	(132,000)	½
			81,800	
Indexation allowance:				
$\frac{260.6 - 237.9}{237.9}$	0.095 x 85,000	8,075		1
$\frac{260.6 - 249.7}{249.7}$	0.044 x 47,000	2,068		1
			(10,143)	
Chargeable gain			£71,657	

W4 Rental income

	£	
Rental income	20,000	
Improvement to garden wall (not allowable)	-	½
Repairs to windows	(1,500)	½
Income from property	£18,500	

W5 Deficit on loan relationships

	£	
Loan interest	(6,000)	½
Bank interest received	2,000	
Interest of Corporation Tax refund	1,000	½
Net deficit	£(3,000)	½

(11)

3) To qualify for Rollover Relief:

- The office accommodation must be a qualifying business asset (½) and all or part of the sale proceeds must be used to buy new qualifying business assets. (½).
- The new asset must be purchased within three years of disposing of the old one (½) (or up to one year before the disposal) (½)
- The old asset must have been used for the purpose of the trade (½) and the new asset must be brought into immediate use for the purpose of the trade. (½)

(3)

Total (17)