

CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 2**

Part/Module: **Part 1**

Answer-to-Question-_1_

One other thing which is covered in the partnership agreement is the proportions in which capital is to be provided. Capital may be needed by the partners when they start the partnership and the split should be covered in the partnership agreement.

Another thing is the way in which the profits will be shared. In the agreement they will agree to a profit sharing ratio to determine how profits are split between the partners.

A third thing it may include is whether interest is to be paid on capital before profits are divided. Interest can be paid on capital provided by the partners before the profits are split and this will be based on the amount of capital each partner injected into the business.

A final thing it may include is any restrictions on the activities of partners. This may include anything to protect any conflict of interest with certain partners.

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

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

Answer-to-Question-_2_

Terminal loss relief - final 12 months of trade

| | £ | £ |
|------------------------------|----------|----------|
| 20/21 | | |
| 06/04/2020 - 30/09/2020 (6m) | | |
| 6/9 x 18,000 | (12,000) | |
| Overlap relief b/f | (8,000) | |
| | | (15,000) |
| 19/20 | | |
| 01/01/2020 - 05/04/2020 (3m) | | |
| 3/9 x 18,000 | | (6,000) |
| Terminal loss | | 21,000 |

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

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

Answer-to-Question-_3_

Two year averaging is available where in two consecutive years the lower profits do not exceed 75% of the higher profits.

This would not be available for year ended 30 June 2018 as the profits in the previous year are more than 75% of the profits for the year.

It would be available for the year ending 30 June 2019 because the profit is significantly lower in that year than the previous year and is therefore under the 75% threshold.

Average profits 2015 - 2018

| | |
|-------|---------|
| | 57,000 |
| | 43,000 |
| | 49,000 |
| | 55,000 |
| Total | 204,000 |
| /4 | 51,000 |

As the lower amount of 25,000 is below 75% of 51,000, a five year averaging claim is possible.

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

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

Answer-to-Question-_4_

A company is large if augmented profits exceed £1,500,000. As total taxable profits are in excess of £2.5 million they will be treated as a large company.

Large companies pay corporation tax in instalments. The instalments for AXLN Ltd will be divided like this:

- Instalment 1 - $3/10$ x estimated CT liability for current accounting period.
- Instalment 2 - $3/10$ x estimated CT liability for current accounting period
- Instalment 3 - $3/10$ x estimated CT liability for current accounting period
- Instalment 4 - $1/10$ x estimated CT liability for current accounting period.

The first instalment is due on the 14th day of month 7 from the start of the accounting period. For AXLN this is 14 September 2020.

The next two will be due 3 months after the first so it will be 14 December 2020 and 14 March 2021.

The final instalment is due 3 months and 14 days from the end of the accounting period.

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

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

Answer-to-Question-_5_

Capital allowance up to 31/07/2020 (12 months)

| | AIA | Gen | SR | Cap All |
|------------------------------|----------|---------|-------|---------|
| TWDV b/f | | 25,000 | 9,000 | |
| Additions | | | | |
| Van (31 Aug 2019) | 12,000 | | | |
| Disposals | | | | |
| Machine sale (31/12/2019) | | (5,000) | | |
| | 12,000 | 20,000 | 9,000 | |
| AIA @ 100% | (12,000) | | | 12,000 |
| WDA @ 18% | | (3,600) | | 3,600 |
| WDA @ 6% | | | (540) | 540 |

Capital allowances up to 31/10/2020 (3 months)

| | | | | |
|----------------------|--|--------|----------|--------|
| TWDV b/f | | 16,400 | 8,460 | |
| Disposals | | | | |
| Car sale (> 110g/km) | | | (10,000) | |
| | | 16,400 | (1,540) | (1540) |
| WDA @ 18% x 3/12 | | (738) | | 738 |
| Balance c/f | | 15,662 | NIL | |

Total Capital Allowances 15,338

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

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

Answer-to-Question-_6_

Accounting periods:

1st = 12 months to end of June 2020

2nd = 2 months to end of August 2020

| | Y/E June 20 | P/E Aug |
|----------------------------|-------------|---------|
| 20 | | |
| Trading Profit | | |
| (12/14 & 2/14 x 126,000 | 108,000 | 18,000 |
| Non-trading profits | | 9,600 |
| Non-trading deficit | (5,200) | |
| Net chargeable gains | 14,000 | |
| Less qualifying charitable | | |
| donations | (1,500) | (750) |
| Taxable total profits | 87,300 | 26,850 |

Total taxable profits for 14 months period:

87,300 + 26,850 = 114,150

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

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

Answer-to-Question-_7_

Interest will run from the 14th April 2020 to 16th August 2020.

$17000 / 4 \text{ months} = 4,250$

$4,250 @ 2.5\% = \text{£}106$ of interest each month

4 months late so $\text{£}106 \times 4 = \text{£}424$ of interest charged to Noche Ltd.

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

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

Answer-to-Question- _8_

| | |
|-------------------------------|-----------------|
| Proceeds | 100,000 |
| Less Allowable cost (N1) | |
| 100,000 / (100,000 + 600,000) | |
| <u>x (400,000 + 90,000)</u> | <u>(70,000)</u> |
| Gain | 30,000 |
| | |
| Original cost | 490,000 |
| <u>Less cost used</u> | <u>(70,000)</u> |
| Base cost of remaining land | 420,000 |

N1 - The enhancement expenditure on the drainage is included in the cost of the land.

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

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

Answer-to-Question- 9_

1 - This will not merit a charge for VAT because Cara is not a taxable person as she is not required to be registered for VAT as her turnover has not exceeded the registration threshold.

2 - This will merit a charge to VAT as Simon's business has turnover of more than £85,000 and is therefore required to be registered for VAT.

3 - This will also result in a charge to VAT as she is a taxable person. The gift of the wine represents the remuneration for services provided so it will therefore merit a charge to VAT.

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

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

Answer-to-Question-_10_

1)

Services are treated as being supplied in the country in which the recipient belongs if they are are supplied to a business. Therefore, the place of supply for VAT purposes will be Bolivia.

2)

As the recipient is not a business, they are treated as being supplied in the country in which the supplier belong so the place of supply will be the UK.

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

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

Answer-to-Question-_11_

Dr CT creditor
Cr bank
With payment for last years tax

Dr CT charge
Cr CT creditor
for under provision

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

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

Answer-to-Question-_12_

1)

A company pays tax on the basis of its profits fro an accounting period (AP). This is ususally the same as its period of account, providing it is 12 months or less.

An AP begins on the earliest of:

- the commencement of trade
- the acquisition of a source of income
- after the previous AP

An AP ends on the earliest of:

- cessation or commencement of trading
- end of a companies period of account
- 12 months after it began

1st AP

15 January 2020 - 28 February 2020

The AP begins when the company acquires a source of income and then ends with the commencement of trading.

2nd AP

01 March 2020 - 28 February 2021

The next AP begins after the end of the 1st AP and runs for 12 months as there is no end of a period of account in this 12 month period and they company did not cease trading.

3rd AP

01 March 2021 - 31 March 2021

The next AP begins after the end of a previous AP and runs for one month until the end of the period of account.

Espiry Ltd must let HMRC know of their company within 3 months of the start of the first AP. Therefore, HMRC should be made aware by 15 April 2020.

The corporation tax return must be submitted to HMRC by the

later of:

- 12 months after the end of the period of accounts (31 March 2022) and
- 3 months from the filing notice.

Therefore Espiry Ltd should file their corporation tax return on 31 MArch 2022. As they have a long period of accounts with at least two accounting period, two returns are due on the same day.

As Espiry is not a large or very large company. Corporation tax should be paid 9 months and one day after the end of the accounting period.

2)

3)

Comission may be paid to third parties provided that undue pressure was not put on the potential client by the third party.

4)

An employment allowance can be claimed by an employer in order to reduce the class 1 NIC bill by up to £3,000 each tax year.

Mobile phones are a tax exempt benefit so there will be no national insurance implications arising. However, company cars will be a taxable benefit in kind. This will be liable to Class 1A national insurance paid by the company.

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

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

Answer-to-Question-_13_

| | £ | £ |
|-------------------------------------------------------|--------|---------|
| Profit per accounts | | 125,000 |
| Add back disallowable expenditure: | | |
| Jakub's wage | 17,000 | |
| Loan to Jakubs father | 3,800 | |
| Lease premium (W1) | 30,000 | |
| Services (N1) | 280 | |
| Depreciation | 13,000 | |
| Repairs (N2) | 6,000 | |
| | | 69,150 |
| Less lease premium (W1) | (930) | (930) |
| Tax adjusted trading profit before capital allowances | | 193,220 |
| Less capital allowances | | (2,571) |
| Tax adjusted trading profit | | 190,649 |

Capital allowances for p/e 31 December 2019.

| | SBA | Gen pool | SR | Cap All |
|--------------------------|-------|----------|-------|---------|
| TWDV b/f | | 7,600 | 5,400 | |
| Additions: | | | | |
| Strengthened floor | 4,000 | | | |
| | 4,000 | 7,600 | 5,400 | |
| SBA @ 2% x 5/12 | (33) | | | 33 |
| WDA @ 18% x 18/12 | | (2,052) | | 2,052 |
| WDA @ 6% x 18/12 | | | (486) | 486 |
| Balance c/f | 3,967 | 5,548 | 4,914 | |
| Total Capital Allowances | | | | 2,571 |

Change of accounting period

Year of the change

- Old date (30/06/19) - 19/20
- New Date (31/12/19) - 19/20

Year of change is 19/20

18/19 1 Jul 18 - 30 Jun 19
12/18 x 190,649 127,099

19/20 = Year of change

20/21 1 Jan 2020 - 31 Dec 2020

Gap period

1 July 19 - 31 Dec 19 (18m) 190,649

Less overlap of 6 months
6/9 x 16,000 (10,667)
Assessable in 19/20 179,982

Jakub's taxable income for 19/20 is £179,982 as he has no other income and will not receive a personal allowance as his income is too high.

N1) For services provided by the business to the sole trader we just disallow the cost.

N2) I have added back the refurbishment costs as I believe this is a significant improvement.

W1) Lease premium

Premium 30,000
Less
2% x 30,000 x (20-1) 11,400
Property Income 18,600

Allowable deduction
18,600 / 20 = £930

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

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

Answer-to-Question-_14_

Tax advisor
Tax Lane
London

Spellick Ltd
Tax client lane
London

05/11/2020

Dear Mr Jones,

I have provided responses to the questions you had regarding loss reliefs below.

Trade losses

Manufacturing

The trading loss on the manufacturing business can be relieved against:

- total profits from the same accounting period
- total profits of the previous 12 months
- carried forward against future trade profits only.

A current year claim can be made and this is an all or nothing claim. This can be claimed against total profits. A carry back claim may not be possible because of the short accounting period as the carry back must be against 12 months of profit where the loss is large.

A carry forward claim could also be made to carry forward the loss against the future trade profits. This is not against total profits like the previous loss reliefs so can only be set against profits from the manufacturing trade as HMRC have decided this is a separate trade to the haulage trade.

Haulage

The losses carried forward from the haulage business can only be set against future trade profits from the haulage business.

As you have decided to close the haulage business you will also be able to receive terminal loss relief on cessation. This terminal loss can be carried back against total profits of the previous 3 years ending immediately before the start of the loss making period.

I hope this answered all of your questions and I look forward to hearing from you in the future.

Yours sincerely,

Tax technician

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

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

Answer-to-Question-_15_

1)

1

W1) Gain on barn

| | |
|-----------------------------|----------|
| | £ |
| Proceeds | 25,000 |
| 30,000 - 5,000 | |
| Less cost | |
| 25,000 / (30,000 + 260,000) | |
| x 175,000 | (15,086) |
| Gain | 9,914 |

W2) Loss on Kil

Loss restricted by deeming gross proceeds to be £6,000)

| | |
|-----------------|---------|
| Deemed proceeds | 6,000 |
| Less cost | (7,000) |
| Allowable loss | (1,000) |

W3)Welding equipment

| | |
|-----------|---------|
| Proceeds | 9,000 |
| Less cost | (5,000) |
| Gain | 4,000 |

Gain restricted to $5/3 \times (9,000 - 6,000) = 5,000$

As regular gain was lower, gain is £4,000

W4) Sale of building to Son

| | |
|-------------------------|----------|
| Proceeds (market value) | 75,000 |
| Less cost | (35,000) |
| Gain | 40,000 |

Summary

| | Gains | Property gains |
|------------------------------|--------------|----------------|
| Gain on barn (W1) | | 9,914 |
| Gain on welding (W3) | 4,000 | |
| Gain on building to son (W4) | | 40,000 |
| Loss on Kiln (W2) | | (1,000) |
| | 4,000 | 48,914 |
| Less AEA | | (12,000) |
| Taxable gains | 4,000 | 36,914 |
| 4,000 @ 10% | 400 | |
| <u>11,000 @ 18%</u> | <u>1,980</u> | |
| 15,000 (W5) | | |
| <u>25,914 @ 28%</u> | <u>7,256</u> | |
| CGT Payable | 9,636 | |

This should be paid to HMRC by 31 January 2021.

W5) Unused basic rate band

| | |
|---------------------|----------|
| Trading profits | 35,000 |
| Less PA | (12500) |
| Taxable income | 22,500 |
| BRB Limit | 37,500 |
| Less taxable income | (22,500) |
| Remaining BRB | 15,000 |

2)

Entrepreneurs relief is available where there is a material disposal of business assets. This is also the case for associated disposals. The disposal of the barn would qualify for entrepreneurs relief which would have allowed the CGT liability arising on it to be taxed at 10% instead of 20%.

Another relief that is available to Eleanor is gift relief. Gift relief could have been claimed on the sale of the outbuilding to her son. This would have allowed Eleanor to

reduce her gain by deferring some of the gain and reducing the base cost of the building going forward for her son.

In order to receive gift relief, a joint claim must be made by Eleanor and her son within four years of the end of the tax year of gift.