November 2020 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

1. A partnership agreement should cover:

Any four from the following:

- The proportions in which capital is to be provided(½) and whether interest is to be paid on capital before profits are divided. (½)
- The way in which profits are to be shared(½), and provisions as to partners' drawings. (½)
- Details relating to meetings of the partners(½) and the management of business. (½)
- Restrictions on the activities of partners(½), for example other occupations and businesses in which the partners may not engage, particularly if they are competing or would expose a partner or the firm to risk. (½)
- The admission (½) of new partners and the retirement or expulsion(½) of partners.
- The effect of death or retirement (½)of a partner; eg providing that, upon the death or retirement of a partner, their share shall go to the others. (½)
- The keeping of books of account, the preparation of financial statements (an annual profit and loss account and balance sheet) (½), and provisions dealing with taxation. (½)
- An indemnity for each partner against liabilities incurred(½) (for example where one partner alone is sued by an outsider) in the ordinary and proper course of business, or in the course of acting to preserve partnership property or business. (½)
- Details of dispute resolution(½): usually arbitration, mediation or through the courts. (½).

(Max 4)

2.

Loss of final 12 months				
2020/21			£	
6.4.20 to 30.9.20	6/9 x £18,000		(12,000)	(½)
Overlap relief			(8,000)	(½)
			(20,000)	
2019/20				
1.1.20 to 5.4.20	3/9 x £18,000	(6,000)		(½)
1.10.19 to 31.12.19	3/12 x £12,000	3,000	(3,000)	(½)
Total terminal loss relief available			(23,000)	
Set- off - LIFO				(½)
2019/20	Y/E 31.12.19		12,000	(½)
2018/19	Y/E 31.12.18		9,000	(½)
2019/20	Y/E 31.12.17		2,000	(½)
			23,000	

(4)

3.

1) Profits of the 2019/20 are less than 75% of profits **(½)** of the year ended 2018/19 (25,000/55,000 = 45%) so averaging is possible. **(½)**

   Averaging 25,000 + 55,000 = 80,000/2 = £40,000 **(½)** for 2018/19 and 2019/20 **(½)**

2) Profits of the 2019/20 are less than 75% of the average profits of first four tax years **(½)** (57,000 + 43,000 + 49,000 + 55,000 = 204,000/4 = 51,000) and 25,000/51,000 = 49% so averaging is possible. **(½)**

   Averaging 57,000 + 43,000 + 49,000 + 55,000 + 25,000 = 229,000/5 = £45,800 **(½)** for each of the years 2015/16 to 2019/20 **(½)**

(4)

4. Large companies

10 months ending 31 December 2020
AXLN Ltd

The first payment was due on the 14th day of month 7 **(½)** counting from the start of the accounting period. ie 14th September 2020 **(½)** Subsequent payments are made 3 months after the previous instalment. **(½)** so 14th December 2020**(½)**, 14th March 2021. **(½)**

The final payment is due 3 months plus 14 days from the end of the accounting period. **(½)** so 14th April 2021. **(½)**

The amount of each instalment is based on the corporation tax liability of the current accounting period, **(½)** and is calculated using the formula 3/n x estimated corporation tax liability where n is the number of months in the accounting period. so 3/10 of the estimated liability for the first three payments. **(½)**

The final payment is a balancing payment, **(½)** so for the 10 months ending 31 December 2020 this will be 1/10 of the estimated liability. **(½)**

(Max 4)

5.

	AIA	General pool	Special Rate pool	Total	
	£	£	£	£	
1.8.19 to 31.7.20					
B/F		25,000	9,000		
Addition - Van	12,000				
AIA – 100%	(12,000)			12,000	(½)
Proceeds		(5,000)			(½)
		20,000			
WDA 18%/6%		(3,600)	(540)	4,140	(½) + (½)
Total allowances				£16,140	
WDV 31.7.20		16,400	8,460		
1.8.20 to 31.10.20					
Proceeds			(10,000)		(½)
Balancing charge			(1,540)	(1,540)	(½)
WDA 18% x 3/12		(738)		738	(½)
Total allowances (balancing charge)				£(802)	(½)
WDV 31.10.20		£15,662			

(4)

6. Dwinlk Ltd

	Year ended 30 June 2020	2 months ended 31 August 2020	(½)
	£	£	
Trade profits (12:2)	108,000	18,000	(½)
Non-trading profit (11:1)	8,800	800	(½)
Non-trading deficit (12:2)	(4,500)	(750)	(½)
	4,300	50	
Chargeable gain	14,000		(½)
	126,300	18,050	
Trade losses brought forward	(50,000)		
Qualifying charitable donations paid	(1,500)	(750)	(½) + (½)
Chargeable	74,800	17,300	(½)

(4)

7.

1) The third payment on account was due on 14 April 2020. **(½)** Interest runs from the due date of payment to the actual date of payment. ie approximately 4 months **(½)**

   So interest payable on the third instalment is £17,000 x 1.75% x 4/12 = £99 **(½)***

   The final instalment is also 1 month late **(½)**

   So interest payable on the final instalment is £168,000 x 1.75% x 1/12 = £245. **(½)***

   ***Follow through on number of months**

   (Max 2)

2) Any interest received will be taxed as non-trading profit. **(½)** Any interest paid by the company will be treated as interest paid on a non-trading loan and can be deducted from non-trading profits income. **(½)**

(1)

8. Wylnem Ltd

	£	£	
Proceeds		100,000	(½)
Less: Cost - original	400,000		(½)
improvement	90,000		(½)
	490,000		
$\frac{100{,}000\ (½)}{600{,}000 + 100{,}000\ (½)}$	(70,000)	(70,000)	(½)
Remaining cost	£420,000		(½)
Gain		£30,000	(½)

(4)

9.

1) Assuming Cara has not voluntarily registered for VAT, the sale of vegetables to the local café is not a supply for VAT purposes **(½)** as Cara is not a taxable person, **(½)** as supplies are below the VAT registration threshold (£85,000pa). **(½)**

2) The sale of the armchair by Simon is not a supply for VAT purposes **(½)** as it is not made in the course or furtherance of his business. **(½)**

3) The preparation of George's tax return is a taxable supply**(½)** as it is made for consideration **(½)** (in kind rather than cash **(½)**) for a service, by a taxable person, in the UK, in the course or furtherance of their business.

(4)

10. The place of supply of services is determined as follows:

The services to Vimer Ltd are provided business-to-business (B2B) **(½)** ie where one business supplies services to another business. The place of supply is where the customer (or buyer) belongs i.e. Bolivia; **(½)**

The services to Jean Claude are provided business-to-consumer (B2C) **(½)** ie where one business supplies services to a consumer (i.e. private individual). The place of supply is where the supplier (or seller) belongs i.e. UK **(½)**

(2)

11. An under provision is accounted for as follows:

	£	£	
Dr Corporation tax charge (P&L a/c)	X		**(½)**
Cr Corporation tax creditor		X	**(½)**

An under provision in the previous year effectively increases **(1)** the following year's **(1)** Corporation Tax charge in the profit and loss account.

(3)

November 2020 Examination

PAPER 2

Business Taxation

Part II Suggested Answers

12.

1) **Corporation Tax**

Accounting periods

An accounting period begins on the earliest **(½)** of:

- the company starting to trade. **(½)**
- the company acquiring a source of income. **(½)**

An accounting period ends on the earliest **(½)** of:

- the company commencing to trade. **(½)**
- the end of the company's period of account. **(½)**
- 12 months from the end of the previous accounting period. **(½)**

In this case, the company's first accounting periods will be:

- 15 January 2020 to 28 February 2020; **(½)**
- 1 March 2020 to 28 February 2021; and **(½)**
- 1 March 2021 to 31 March 2021. **(½)**

The company was required to notify HMRC within 3 months **(½)** of the beginning of its first accounting period: by 15 April 2020. **(½)**

A Corporation Tax return is due for each accounting period. **(½)*** So three Corporation Tax Returns will be required to cover the company's first set of accounts. **(½)***

The due dates for all the returns will be 12 months **(½)*** from the end of the end of the period of account**(½)***i.e. by 31 March 2022. **(½)***

The tax for each accounting period will be due 9 months and one day **(½)** after the end of the accounting period **(½)**

- 1 December 2020 **(½)**
- 1 December 2021 **(½)**
- 1 January 2022 **(½)**

(Max 10)

*** ½ for more than one return; ½ for 3 returns; ½ for + 12 months; ½ for any of the returns being 31/3/22; ½ for all 3 returns the same date (these last three x ½ marks could simply be gained for stating the three periods followed by the 31/3/22 for each one.)**

2) **Registering Espiry Ltd at Companies House**

The following documents must have been submitted when registering Espiry Ltd at Companies House:

1) A Memorandum of Association - stating that the initial shareholders wish to form a company and to subscribe for shares.
2) An application for registration - containing, amongst other details, the company's name and the address of the registered office.
3) A statement of capital - including the number and aggregate nominal value of the shares to be issued, each class (if appropriate) and the rights attached to the shares.
4) A statement of proposed officers - setting out the first directors and company secretary (if making the choice to appoint one).
5) A statement of initial significant control - giving the details of persons who exercise significant control through for example controlling more than 25% of the shares or voting rights.
6) A statement of compliance with the requirements of the Companies Act 2006.
7) The Articles of Association. These are the internal rule book for the company and shareholders can choose to either use a standard form or devise their own. If they devise their own then the Articles need to be filed with Companies House.

1 mark each (Max 4)

3) **Commission arrangements**

A fee can be paid to a third party for the introduction of new clients **(1)** if we are sure that:

1) No undue pressure has been put on the potential client by the third party **(1)**.
2) The commission has been fully disclosed to the potential client before we accept instructions. **(1)**

(3)

4) **Employer's National Insurance**

Employment allowance can be claimed by the company for the 2019/20 tax year up to £3,000 **(½)**. This reduces the employer's National Insurance for March 2020 to nil, but the unclaimed balance cannot be carried forward **(½)**. The allowance claimed for 2020/21 reduce the employer's National Insurance for April 2020 to nil and the balance will reduce the amount due for May 2020 **(½)**.

There will be no National Insurance on the mobile phone costs (this is in line with the tax treatment).

(1)

Class 1A National Insurance contributions will be payable by Espiry Ltd **(1)** based on the value and CO_2 emissions of the car.

(Max 3)

Total (20)

13. **Jakub – Taxable Income 2019/20**

Adjustment to profit	£	£	
Profit per draft accounts		125,000	
Owner's drawings – not allowable	17,000		(½)
Loan to employee – allowable as taxable on employee	-		(½)
Loan to father – disallowable as non-business expense	3,800		(½)
Rental premium added back	30,000		(½)
Allowable cost (Working)	(465)		(½)
Advance rent (6/12 x £8,000)	4,000		(½)
Employee wage –service for own use valued at cost	280		(1)
Depreciation	13,000		(½)
Repairs not allowed as capital in nature	6,000		(½)
		73,615	
Adjusted profit		198,615	
Capital allowances – plant and machinery		(6,619)	(½)
Structures and buildings allowance		(113)	(½)
Tax adjusted profit		191,883	
Overlap profit (6/9 x 16,000)		(10,667)	(1)
		181,216	
Personal allowance		(0)	(½)
Taxable income		181,216	

Working:		
Taxable on landlord:	£	
Premium paid	30,000	
Less capital – 2% x 30,000 x (20-1)	(11,400)	(1½)
Property income	18,600	
Deductible for Jakub		
6/240 x 18,600	465	(½)

Capital allowances – plant and machinery	Note	AIA	Main pool	Special rate pool	Allowances	
		£	£	£	£	
WDV b/f			7,600	5,400		
Additions						
Strengthening floor	1	4,000			4,000	(½)
WDA						
18% x 18/12			(2,052)		2,052	(1)
8% x 9/12 + 6% x 9/12				(567)	567	(1)
Allowances					6,619	
WDV c/f			5,548	4,833		

Note

1) Allowed as incidental to installation of plant. **(½ for explanation)**

Structures and buildings allowance	£	
Planning permission – not allowed	-	(½)
Design fees	1,500	(½)
Construction costs	12,000	(½)
Allowable cost	13,500	
Allowance available for the period		
2% x 5/12 x 13,500	113	(1)

Total (15)

14. **Spellick Ltd**

Any Advisers
Any town
YY12 3XX

Mr Jones
Spellick Ltd
Any town
ZZ12 34D

Dear Mr Jones

Format 1

Company losses

Further to your query concerning the losses incurred by the company, I am writing to set out the options available to the company.

Trading loss – manufacturing business

The loss on the manufacturing business for the year ended 30 June 2019 can be offset against total profits **(½)** for the year ended 30 June 2019 **(½)**. Unfortunately, this might mean that there would be no relief for any charitable donations **(½)**. After a claim has been made against current year profits, **(½)** the loss can then be offset against the total profits for the previous 12 months **(½)**. As the previous accounting period is only six months, the loss can also be set against half the total profits of the year ended 31 December 2017 **(1)**. Any remaining loss can be carried forward and offset against the total profits **(½)** of future years as the loss was made after 1 April 2017**(½)**.

Trading loss – haulage business

The loss brought forward for the haulage business can only be relieved against profits from the same trade **(½)** as it was incurred before 1 April 2017 **(½)**. However, a claim can be made to restrict the offset **(½)**. As the business ceased in December 2019, the loss for the last six months can be first set against total profits for the year ended 30 June 2020 **(½)**. Any remaining loss may then be carried back and set against the total profits **(½)** of the three years **(½)** preceding 1 July 2019**(½)**.

Excess of loan interest paid over interest received

This is called a deficit on loan relationships **(½)**. The deficit can be offset in the following ways:

- Against total profits for the year ended 30 June 2019 **(½)**.
- Carried back against the interest earned **(½)** in the previous 12 months **(½)**.
- Carried forward against total profits in future years**(½)**.

These reliefs are not all or nothing claims. **(1)**

I hope that this makes clear the options available, but if you have any queries, please do not hesitate to contact me.

Yours sincerely

An adviser

Total (Max 10)

15.

1) **Eleanor – Capital Gains Tax Computation**

	Non Business	Business / £	
Disposal of lease			
Sales proceeds (30,000 – 5,000)		25,000	**(1)**
Cost:			
175,000 x 25,000/(30,000 + 260,000)		(15,086)	**(2½)**
Gain		9,914	
Disposal of kiln			
Loss not allowed as capital allowances claimed		-	**(1)**
Disposal of welding equipment	Non Business	Business	
Sales proceeds (25:75)	2,250	6,750	**(1)**
Cost (25:75)	(1,250)	(3,750)	**(½)**
Gain	1,000	3,000	
Non-business exempt as wasting chattel	(exempt)		**(½)**
Compare to 5/3 x (6,750 – 6,000)		1,250	**(1)**
Taxable		1,250	**(½)**
Disposal of outbuilding			
Deemed proceeds		75,000	**(½)**
Cost		(35,000)	**(½)**
Gain		40,000	
Total gains			
(9,914 + 1,250 + 40,000)		51,164	
(No mention of indexation allowance)			
Annual exempt amount		(12,000)	**(½)**
Taxable		39,164	
Tax payable			
Business profits		35,000	
Personal allowance		(12,500)	**(½)**
Taxable income		22,500	
Basic rate band		37,500	
Less used		(22,500)	**(½)**
Available		15,000	
Tax due			
15,000 x 10%		1,500	**(½)**
(39,164 – 15,000) x 20%		4,833	**(½)**
Total due		6,333	

Due date: 31 January 2021 **(½)**

(12)

2) Eleanor has disposed of the outbuilding to her son at below market value **(½)**. As she used the building in her business **(½)**, she can claim gift relief to defer the gain**(½)**. The claim requires a joint claim between Eleanor and her son**(½)**. The time limit for the claim is four years from the end of tax year of disposal i.e. 5 April 2024**(½)**. If the claim is made, she will still be taxed on the excess proceeds: the difference between the sales proceeds received and the cost of the outbuilding **(½)**.

(3)

Total (15)