

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

November 2020

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. A partnership agreement will usually include details of the firm's name, address and type of business, and indicate when it started and how long it intends to run.

Briefly explain four other matters which are usually covered in a partnership agreement. (4)

2. John has been trading for many years making accounts to 31 December each year. Due to poor trading conditions, the business ceased on 30 September 2020 with trading losses of £18,000 for the nine months ended 30 September 2020. John's tax-adjusted trading profits for the previous three years were:

	£
31 December 2017	7,000
31 December 2018	9,000
31 December 2019	12,000

There is an overlap relief of £8,000.

Calculate the terminal loss relief and show how it is relieved in 2017/18, 2018/19 and 2019/20. (4)

3. Ann has farmed as a sole trader for many years. Her tax adjusted profits are as follows:

	£
30 June 2015	57,000
30 June 2016	43,000
30 June 2017	49,000
30 June 2018	55,000
30 June 2019	25,000

Explain whether:

- 1) **A two year averaging claim is possible for the profits of the years ended 30 June 2018 and 2019.**
- 2) **A five year averaging claim is possible.**
- 3) **Calculate the amounts assessable for the affected tax years in each of 1) and 2).**

(4)

4. AXLN Ltd had taxable total profits in excess of £2.5 million for the year ended 29 February 2020. The company anticipates profits will be maintained at this level for future accounting periods. AXLN Ltd changed its accounting date and will prepare accounts for the 10 months ending 31 December 2020. AXLN Ltd has no related 51% companies.

Explain when AXLN Ltd pays its Corporation Tax for the 10 months ending 31 December 2020. Explain how the amount of each payment is calculated.

(4)

5. A company prepared accounts for the 15 months to 31 October 2020. It had the following acquisitions and disposals of fixed assets in the period:

		£
31 August 2019	Van purchase cost	12,000
31 December 2019	Machine sale proceeds	(5,000)
30 September 2020	Car sale proceeds	(10,000)

The car sold in September 2020 had CO₂ emissions greater than 110g/km.

At 1 August 2019 the tax written down value on the general pool was £25,000 and on the special rate pool was £9,000.

Calculate the maximum capital allowances relating to the 15 month period to 31 October 2020. (4)

6. Dwinlk Ltd prepared accounts for the 14 months ended 31 August 2020 which include the following:

	<u>Notes</u>	<u>14 months ended</u> <u>31 August 2020</u>
		£
Tax-adjusted trade profits	1, 2	126,000
Non-trading profit	3, 7	9,600
Non-trading deficit	4, 7	5,250
Chargeable gain	5	14,000
Charitable donations	6	2,250

- 1) Dwinlk Ltd has no capital allowances.
- 2) There were trading losses brought forward from the year ended 30 June 2019 of £50,000.
- 3) Non-trading profit was in respect of interest received on a one year fixed rate bond that matured on 31 July 2020.
- 4) Non-trading deficit was in respect of interest payable on a loan to purchase property to be used as an investment. The property was purchased several years ago.
- 5) The chargeable gain was in respect of a property sold in March 2020.
- 6) The company paid qualifying charitable donations of £1,500 on 1 June 2020 and £750 on 1 August 2020.
- 7) Interest is earned evenly over the 14 month period.

Calculate the taxable total profits for each Corporation Tax accounting period within the 14 months ended 31 August 2020. (4)

7. The following information relates to two unconnected clients:

Noche Ltd is a large company for payment purposes. The third instalment of Corporation Tax for the year ended 31 March 2020 was paid on the due date but was underpaid by £17,000. This amount was paid to HMRC together with the £168,000 balance of the Corporation Tax liability on 16 August 2020.

Sabado Ltd is not a large or very large company. It overpaid its Corporation Tax payable for the year ended 31 October 2019 and received interest on the overpayment.

- 1) **Calculate Noche Ltd's interest on late paid Corporation Tax for the year ended 31 March 2020. All workings should be to the nearest month and pound.** (2)
- 2) **Explain how Noche Ltd's interest on underpaid tax and Sabado Ltd's interest on overpaid tax is treated for Corporation Tax purposes.** (1)

8. On 1 March 2020 Wylnem Ltd sold five acres of land for £100,000. This was part of 25 acres purchased in April 2019 for £400,000. Prior to the sale, the company spent £90,000 improving the drainage to the whole site. The remaining 20 acres was valued at £600,000.

Calculate the capital gain rising on the sale of the five acres, and the cost of the remaining 20 acres for future disposal. (4)

9. The following transactions took place recently in the UK:

- 1) Cara, a greengrocer with sales of £50,000 per annum sold vegetables to a local café.
- 2) Simon, who runs a florist business with sales of £100,000 per annum sold an armchair online that he no longer uses in his own house.
- 3) Elma, who invoices clients a total of £100,000 each year for preparing tax returns, received a case of wine worth £250 from her cousin, George, for preparing his tax return.

Explain whether each of the above is a supply meriting a charge for VAT purposes. (4)

10. Relez Ltd is registered for VAT in the UK, but in no other country, and provides architectural consultancy services. In the last quarter the company provided services to:

- 1) Vimer Inc, a company in Bolivia.
- 2) Jean-Claude, an individual living in the USA.

Explain the rules for determining the place of supply of services for VAT purposes to Vimer Inc and Jean-Claude. (2)

11. **Explain the accounting entries that must be made for under provision of Corporation Tax, and the effect of such an adjustment on the Corporation Tax charge.** (3)

PART II

12. Ravi and Julia are qualified accountants with experience in accounts preparation and audit. They set up a company together called Espiracy Ltd, which was incorporated on 1 January 2020. They are directors and shareholders. Each director loaned £10,000 to the company on 15 January 2020, which was deposited into a savings account to earn interest until the funds were required. The company started trading on 1 March 2020. The company's first accounts will be prepared for the 15 month period to 31 March 2021. Espiracy Ltd is not a large or very large company for Corporation Tax payment purposes.

Ravi is keen to set up an arrangement to pay commission to a financial adviser who refers new clients but is unsure of the ethical issues relating to the payment of commission.

Each director has received a monthly salary from March 2020. The employer's national insurance was £2,100 in total for March and then £1,900 per month. As well as salaries, each director has been supplied with a mobile phone and a car.

Requirements:

- 1) **For Espiracy Ltd, explain when accounting periods start and end, and so identify the dates of all accounting periods from incorporation to 31 March 2021. Identify the date by which HMRC should have been notified of the new company, and the dates by which Espiracy Ltd should file Corporation Tax Returns and pay Corporation Tax.** (10)
- 2) **Identify four of the documents that must have been sent to Companies House when registering Espiracy Ltd.** (4)
- 3) **Explain the ethical issues relating to the payment of commission to the third party financial adviser.** (3)
- 4) **Explain the impact of the employment allowance on the National Insurance Contributions, and whether National Insurance Contributions are due on the mobile phones and cars.** (3)

Total (20)

13. Jakub has traded as a self-employed furniture maker for several years preparing accounts to 30 June each year. In 2019 he decided to extend his accounting period and prepared accounts for the 18 months ended 31 December 2019. The accounts profit for the period was £125,000.

You are given the following information in relation to amounts deducted in arriving at the accounting profit:

- 1) Employee costs include a wage paid to Jakub of £17,000.
- 2) Bad debts include the following:

	£
Employee debt written off	4,000
Loan to Jakub's father written off	3,800

- 3) Rental costs include a lease premium of £30,000 for a new 20-year lease on business premises commencing on 1 July 2019 together with a payment of £8,000 for the first year's rent.
- 4) During the period, an employee helped Jakub to fit a kitchen at Jakub's home. The employee's wage for the time spent was £280 and would have been charged to a customer at £800.
- 5) Depreciation of £13,000 had been deducted.
- 6) Repairs include refurbishment costs of £6,000 carried out on a building that Jakub had bought at a low price reflecting the state of the property.

The following items have not been included in the calculation of accounting profit:

- 1) The floor of the workshop was strengthened in order to take the weight of a machine in November 2019 at a cost of £4,000. The machine will be purchased in March 2020.
- 2) Jakub incurred the following costs on the construction of an office:

		£
January 2019	Planning permission	2,000
January 2019	Fees for design	1,500
April to June 2019	Construction costs	12,000

He started to use the building on 1 August 2019.

Other information

- 1) The balance at 1 July 2018 on the main pool was £7,600 and on the special rate pool £5,400.
- 2) Jakub had nine months of overlap profit brought forward at 1 July 2018 of £16,000.
- 3) Jakub had no other income for 2019/20.

Requirement:

Calculate Jakub's Taxable Income for 2019/20, including explanations of your treatment of each item. (15)

14. Spellick Ltd has been in business for a number of years, preparing accounts to 31 December each year. In 2018, it shortened its accounting period and prepared accounts for the six months to 30 June 2018 and then for the year ended 30 June 2019.

Spellick Ltd has income each year from the following sources:

- 1) The manufacture and repair of trucks.
- 2) A haulage business.
- 3) Rental income from an investment property.
- 4) Interest on investments.

It makes annual donations to UK registered charities.

The manufacturing business has previously been profitable, but in the year ended 30 June 2019, it made a large loss due to the loss of a major customer.

The haulage business is considered by HMRC to be a separate trade to the manufacturing business. The haulage business has been making small profits and losses over the years. At 1 July 2018 there were losses brought forward which had arisen in the year ended 31 December 2016, which had not yet been relieved. There was a small profit in the year ended 30 June 2019. The managing director, Mr Jones, thought that there would be further losses in the future and so this haulage trade was closed at the end of December 2019.

In the year ended 30 June 2019, the interest payable on loans exceeded the interest received from investments for the first time due to a loan taken out to purchase an investment property.

Mr Jones, the managing director, has contacted you to ask how these various losses can be relieved.

Requirement:

Draft a letter to Mr Jones setting out how the various losses may be relieved.

(10)

15. Eleanor is a self employed artist and made the following disposals during 2019/20:
- 1) She operates her business from a converted barn which she bought in 2012 for £175,000. In June 2019, she granted a short lease on part of the barn to Freddie, for his business use. The gross premium for the lease was £30,000 and the amount assessed on Eleanor as income was £5,000. Her remaining interest in the barn was valued at £260,000 in June 2019.
 - 2) In August 2019, she sold a pottery kiln, on which she had claimed capital allowances. The kiln was sold for £5,600 and had been purchased for £7,000.
 - 3) In October 2019, she sold some moveable welding equipment, which she had used 75% for business purposes. Eleanor had claimed capital allowances on the business proportion. The cost of the equipment was £5,000 and the sales proceeds were £9,000.
 - 4) In February 2020, she sold an outbuilding to her son for £50,000. She had used the building for storage in her business. The building had cost £35,000 in March 2012 and was valued at £75,000 in February 2020.

Other information

Eleanor's taxable trading profits for 2019/20 were £35,000. She had no other income or outgoings during the year.

Requirements:

- 1) **Calculate the Capital Gains Tax payable by Eleanor for 2019/20, explaining any amounts that are not taxable and assuming no reliefs are claimed. State the date by which the tax is payable.** (12)
- 2) **Explain any reliefs available to Eleanor and any conditions, assuming that she does not wish to reinvest any proceeds. Calculations are not required.** (3)

Total (15)