THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

November 2022

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. Ellis has been farming for many years preparing accounts to 31 March. He has had the following tax adjusted profits and losses:

<u>Year ended</u>	£
31 March 2018	40,000
31 March 2019	15,000
31 March 2020	15,000
31 March 2021	20,000
31 March 2022	5,000

Calculate the assessable profits for 2017/18 to 2021/22 assuming a five-year averaging claim is made. Show why the five-year averaging claim can be made. (4)

2. Samantha has been trading for many years as a motor mechanic. Her 2020/21 tax return was issued in April 2021. She was liable to make payments on account for the 2020/21 tax year of £3,000 each. She made the first payment on 25 January 2021, and the second payment on 31 August 2021. The balancing payment for 2020/21 was calculated as £11,500. Of this she paid £9,000 on 26 January 2022 and £2,500 on 30 April 2022.

Calculate the penalties and interest due on any late payments. Ignore any relaxation of the rules as a result of the coronavirus pandemic. (4)

3. Spakit Ltd manufactures and sells hot tubs. Draft accounts have been prepared for the year ended 30 April 2022 and the finance director has asked about the Corporation Tax treatment of the following costs:

   1) The company pays for gym membership for the directors.

   2) The accounts include a deduction for depreciation. Part of the depreciation relates to assets acquired under finance leases.

   3) The company was granted a 10-year lease for their office premises. The terms of the lease included a premium payable for the grant.

   4) Legal fees were incurred on the termination of a 15-year lease.

Explain the Corporation Tax treatment of each of the costs above. (4)

4. Atler Ltd bought a leasehold property for £125,000 in February 2010. The lease had 98 years left to run. In June 2019, the company bought the freehold interest in the property for £200,000. The whole property was sold in June 2022 for £500,000.

Calculate the Corporation Tax liability on the disposal of the property. (3)

5. Eklin Ltd has traded for many years as an art gallery preparing accounts to 31 December. The company ceased to trade on 28 February 2021 and the company premises were rented to a retailer from 1 March 2021. The company's year-end was changed to 31 March and accounts prepared for the 15 months to 31 March 2022.

Briefly explain the Corporation Tax accounting periods for which Eklin Ltd will need to file Corporation Tax returns relating to the 15 months ended 31 March 2022. State the due dates for filing the returns. (3)

6. Splack Ltd has prepared accounts for the 18 months ended 30 June 2022. The company has trading profits and makes claims for capital allowances. During the period a property was sold. The company also makes charitable donations.

Explain how the above items are treated in Splack Ltd's Corporation Tax returns for the 18 months ended 30 June 2022. (3)

7. Partle Ltd prepared accounts for the year ended 31 December 2021. During the year the following transactions occurred:

1) Interest was received on a trade debt of £1,500.

2) Interest was received on overpaid Corporation Tax of £425.

3) On 1 April 2021 a five-year loan of £2,000,000 was put into place with the bank. Repayments are interest only. Interest of 3.5% is payable quarterly in arrears. Arrangement fees of £24,000 were paid when the loan was put into place.

Calculate the credit/deficit arising on non-trade loan relationships in the year ended 31 December 2021. Show your treatment of each item. (3)

8. David has traded for many years as a tree surgeon. He uses various vans and pickup trucks for his business. In 2021/22 he was approached by a collector of commercial vehicles. The collector bought, from David, a van for £5,000 and a pickup truck for £7,500. The cost to David of the van had been £8,500 and the pickup truck £4,000.

Explain the Capital Gains Tax implications of the two disposals. (3)

9. Sam has traded for many years supplying vintage cars for weddings and other events. Sam also owned 100% of the share capital of Sharila Ltd which provides photography services. Sam made the following disposals in 2021/22:

1) Sam's home for a gain of £125,000. The property included several garages which were used exclusively for the storage of the vintage cars.

2) 40% of the share capital of Sharila Ltd was gifted to Sam's civil partner Jack. The shareholding was valued at £45,000 and had been bought by Sam for £17,000.

Explain the Capital Gains Tax implications for Sam of the two disposals. (2)

10. John was the sole director and shareholder of Trunik Ltd. The company traded for many years selling electrical appliances from a high street shop. John paid £100 for the shares when the company was incorporated in 2010. The shop was bought by John in his own name on 1 June 2010 for £80,000. The company used the shop rent free until 31 May 2014. John charged Trunik Ltd rent for the shop from 1 June 2014 to 31 May 2021 at 25% of the market rate.

On 31 May 2021, John sold the shares in Trunik Ltd for £75,000 and the shop for £250,000. John is a higher rate tax payer and made no other disposals during 2021/22.

Calculate the amount of the gains which qualify for business asset disposal relief. (4)

11. Huan has traded for many years as a wool shop. Huan is VAT registered. The lease on the shop will end on 28 February 2023. Huan has decided to retire and will cease trading on 31 December 2022. She will keep any unsold stock for her own personal use and will sell any remaining fixtures at auction in February 2023.

Explain when Huan will deregister for VAT, when this will take effect and the VAT treatment of the unsold stock and the fixtures. (3)

12. Martlin Ltd is a VAT registered company selling bicycle parts to cycle shops and retail customers. In order to improve cash flow, the company offers a prompt payment discount to cycle shops of 5% for payment within seven days. The company made the following supplies in the quarter ended 31 March 2022:

1) A sale of £180 (including VAT) to a retail customer.

2) A sale of £750 (excluding VAT) to a shop, who takes advantage of the prompt payment discount.

Calculate the output VAT to be declared on each of the above sales and explain the two methods for Martlin Ltd to deal with the prompt payment discount through its invoicing system. (4)

PART II

13. You work for an accountancy firm. Jayden Skelly is one of your clients. Jayden was a sole trader until he stopped trading on 31 December 2021.

Your firm has prepared Jayden's self-assessment tax returns for several years. You will prepare his return for 2021/22 for submission this month and advise on any subsequent business receipts and payments. However, Jayden will prepare his own tax returns from 2022/23 onwards when he expects his annual income to be £25,000.

Jayden's taxable trading profits are always calculated using the accruals basis. His taxable trading profits for the year ended 30 September 2020 were £83,000.

Jayden's final accounts are for the 15-month period ended 31 December 2021. The accounting profit is £52,000 after deducting the following amounts:

	Notes	£
Jayden's salary		24,000
Sam's salary	1	5,600
Tax compliance fees	2	500
Computer purchase		3,000
Depreciation		1,460
Gifts to customers	3	600
Motor expenses	4	1,600

Notes

1) Jayden's daughter, Sam, did computer (IT) support for the business. An independent company would charge £1,500 for such services for this period.

2) Your firm's fees are £400 for calculating Jayden's taxable trading profits and £100 for completing the remainder of his tax return.

3) The gifts were chocolates costing £10 per box, with Jayden's name printed on each box.

4) The motor expenses were the total running costs of Jayden's car, which he used 20% privately. The car had CO_2 emissions of 258 g/km.

At 1 October 2020, Jayden had tax written down values of £8,760 on the general pool and £16,085 for the car. On 31 December 2021, he sold the car for £18,000 and the other items of plant for £2,000. Each asset was sold for less than cost.

Jayden had started trading on 1 October 2010. His trading profits for the year ended 30 September 2011 were £13,000.

Debt collection

When Jayden stopped trading, some customers still owed him money. Jayden had written off these amounts in his final accounts, expecting not to receive the money.

However, on a friend's suggestion, Jayden will use a debt collector to try to recover the amounts owed to him.

Jayden wants to know how he should treat the debt collection fee and any amounts received from former customers in 2022/23, for Income Tax purposes.

Requirements:

1) Write a letter to Jayden in which you:

a) Calculate Jayden's tax-adjusted trading profits for the 15-month period ended 31 December 2021, showing your treatment of each item. (8)

b) Calculate the assessable trading profits for each of the last two tax years in which Jayden traded, stating the basis periods. (3)

c) Explain how the debt collection fee and any amounts recovered from former customers in 2022/23 will be treated for Income Tax purposes. (3)

2) Explain the content of the letter of disengagement your firm should send to Jayden. (4)

Total (18)

14. Twigg Ltd is a trading company, which has no related 51% group companies. The company makes all beneficial claims and elections.

Year ended 31 August 2020

The company submitted its Corporation Tax return on 16 September 2021. HMRC opened an enquiry into the return on 15 October 2022.

Year ended 31 August 2021

The draft tax-adjusted trading profits for the year ended 31 August 2021 were £4,520,000. This figure is stated before including any income, or deducting any costs, due to the following transactions.

1) From 1 July 2021, Twigg Ltd rented out a warehouse. On 1 July 2021, the tenant paid rent for six months of £180,000. Until 30 June 2021 the warehouse had been used in the company's trade.

2) Twigg Ltd pays a property management company 10% of the gross rental income to manage the letting. For the year ended 31 August 2021, Twigg Ltd paid interest of £42,000 on the loan which had been used to buy the warehouse in 2008.

3) In August 2021, Twigg Ltd sold its only holding of shares (a 1% holding) for a chargeable gain of £6,000,000.

4) Twigg Ltd paid shareholders a total dividend of £100,000 in respect of the year ended 31 August 2021.

5) Twigg Ltd's only other income is bank interest income of £58,000.

6) Twigg Ltd had capital losses brought forward at 1 September 2020 of £8,000,000 from a disposal in 2018.

Seven-month period ended 31 March 2022

At a board meeting, the directors of Twigg Ltd agreed to move the accounting date of the company to 31 March.

Twigg Ltd's Corporation Tax payable for the seven-month period ended 31 March 2022 is £840,000.

Requirements:

1) Explain why HMRC was within the time limit for opening an enquiry into the Corporation Tax return for the year ended 31 August 2020. (2)

2) Calculate Twigg Ltd's Corporation Tax payable for the year ended 31 August 2021, stating the action the directors must take to achieve the beneficial treatment of the capital loss. (7)

3) Calculate the amounts, and state the due dates, of the Corporation Tax instalment payments for the seven-month period ended 31 March 2022. (3)

4) Explain how board meetings are conducted to make decisions such as the change of accounting date. (2)

5) State the date by which the accounts for the seven-month period ended 31 March 2022 must be submitted to Companies House. (1)

Total (15)

15. Leon and Maggie had traded in partnership together for many years before Victor joined the partnership on 1 September 2021.

The partnership had tax-adjusted trading profits before capital allowances of £379,000 for the year ended 31 March 2022.

<u>Capital purchases</u>

At 1 April 2021, the tax written down value on the general pool was £87,000 and on the special rate pool was £948.

In November 2021, the partnership installed solar panels costing £30,000 and machinery costing £41,000. The floor of the factory building had to be strengthened at a cost of £8,000 to install the machinery. The same month, the partnership installed an electric vehicle charging point, costing £6,000, for use by employees to charge their own cars.

The suppliers required payment for these purchases in November 2021. This was done for all purchases except the charging point for which payment was made late in May 2022.

<u>Profit sharing agreement</u>

Prior to Victor joining the partnership, Leon and Maggie shared profits equally. From 1 September 2021, the partners agreed to pay interest of 2% per annum on capital invested in the partnership, and an annual salary of £60,000 to Leon. The remaining profits were shared 30% Leon, 50% Maggie and 20% Victor.

The amounts of capital invested by each partner, and which remain unchanged since they each joined the partnership, are:

	£
Leon	90,000
Maggie	120,000
Victor	30,000

<u>Victor</u>

Victor was employed throughout 2021/22 by a different business. He withdrew £10,000 from the partnership in 2021/22. Victor is worried he has paid too much in National Insurance Contributions (NIC), now that he is both an employee and a partner.

Requirements:

1) **Calculate the partnership's tax-adjusted trading profits for the year ended 31 March 2022, clearly showing the relevant pool and allowance for each purchase.** (5)

2) **Calculate each partner's assessable trading profit for 2021/22.** (4)

3) **Show the double entries recording Victor's investment of capital in the partnership, his allocation of partnership profit, and his drawings from the partnership, in the year ended 31 March 2022.** (3)

4) **State the classes of National Insurance Contributions (NIC) payable by Victor in 2021/22 and briefly explain the rules which limit the amount of NIC he pays.** (3)

Total (15)

16. Akshay is a sole trader preparing accounts to 5 April each year. He makes all beneficial claims.

In 2021/22, Akshay's only income is trading profits of £36,000, as calculated by Akshay's tax adviser. This amount is stated after claiming all capital allowances, including the structures and buildings allowance.

On 30 April 2021, Akshay purchased a newly-constructed storage building for use in his trade, paying the developer £400,000 for the land and building. In May 2021 he purchased computer equipment costing £20,000 for use in the building.

On 1 September 2021 Akshay sold fixed plant for £500,000. He had purchased the plant for £338,000 in January 2018 and had paid £10,000 for essential repairs before it could be used in his trade.

In December 2021, Akshay made a gain of £30,000 on the sale of a painting. This was his only other disposal during 2021/22.

Akshay expects that the site of the storage building will become more valuable when a new airport is completed nearby. He may sell the site (land and building) within the next five years if the value increases significantly. The computer equipment would be included in the sale, with proceeds lower than cost.

Requirements:

1) Explain why Akshay can claim rollover relief on selling the fixed plant and state the date by which the claim must be made. (2)

2) Calculate Akshay's Capital Gains Tax payable for 2021/22, showing the amount of rollover relief. (5)

3) Explain the additional information about the storage building that Akshay's tax adviser would have needed when calculating the structures and buildings allowance for 2021/22. (2)

4) Explain the capital gains or allowable losses arising on a future sale by Akshay of the site and computer equipment, including the effect of the rollover relief and capital allowance claims. Do not perform calculations. (3)

Ignore VAT.

Total (12)