November 2022 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1. **Calculation of averaging relief:**

Average of 4 years (40,000 + 15,000 + 15,000 + 20,000)/4	£22,500	**1**
Comparison with y/e 31 March 2022 5,000/22,500	22%	**1**
Less than 75% so averaging available		**½**
Average profits (40,000 + 15,000 + 15,000 + 20,000 +5,000)/5	£19,000	**1**
Assessable profits 2017/18 – 2021/22	£19,000	**½**
		(4)

2. **Self assessment late payment penalties and interest**

Second payment on account		
Due date 31 July 2021		
Payment date 31 August 2021		
Interest due 1 month at 2.6% x £3,000	£7	**1**
No penalty applied to payments on account		**1**
Balancing payment		
Due date 31 January 2022		
Payment date 30 April 2022		
Interest due 3 months at 2.6% x £2,500	£16	**1**
Payment made more than 30 days late		**½**
Penalty 5% x 2,500	£125	**½**
		(4)

3. **Corporation tax adjustment to profit**

1) The gym membership will be allowable for Corporation Tax **(½)**. The cost will be a taxable benefit for each of the directors and the class 1A on that benefit is an allowable deduction. **(½ for reason)**.

2) Depreciation is normally disallowed for Corporation Tax. **(½)** The part which relates to the assets acquired under finance leases is however allowed. **(½)**

3) The 10-year lease is a short lease. The premium paid by Spakit Ltd is part revenue expense and part capital expense. **(½)** Spakit Ltd will be able to claim Corporation Tax relief on the part treated as a revenue expense **(½)** spread over the 10-year lease period **(½)**.

4) The disposal of the 15-year lease is a capital transaction. The legal costs incurred on the cost of disposal of a capital item are disallowed. **(½)** **(4)**

4. Company gain on disposal of property.

		£	£	
Sales proceeds			500,000	
Cost – leasehold		125,000		½
Enhancement – freehold		200,000	(325,000)	½
			175,000	
Indexation allowance	(278.1 – 219.2)/219.2			
	0.269 x 125,000		(33,625)	1½
			£141,375	
Corporation Tax due	19%		£26,861	½

(3)

5. Corporation Tax accounting periods

Year ended 31 December 2020
Eklin Ltd will file one Corporation Tax return which will be due on 31 December 2021. **(½)**

15 months ended 31 March 2022
Eklin Ltd ceased trading on 28 February 2021 which caused an accounting period to end. **(½)**
A return will be required for the two-month period to 28 February 2021. **(½)**

A company's accounting period cannot exceed 12 months **(½)** and so a further return will be due for the year ended 28 February 2022. **(½)**

The company's period of account comes to an end on 31 March 2022 **(½)**. A return will be therefore due for the one month ended 31 March 2022. **(½)**

All three returns will be due by 31 March 2023. **(½)**

If cessation point is missed, half mark for each of two periods and due date **Max (3)**

6. Corporation tax long period of account

The 18-month period will be split into two accounting periods: the year ended 31 December 2021 and the six months ended 30 June 2022. **(½)**

The tax adjusted trading profit before capital allowances for the 18-month period will be apportioned between the two accounting periods on a time basis. **(½)**

Separate capital allowance computations will be prepared for the year ended 31 December 2021 and the six months ended 30 June 2022 **(1)**.

The chargeable gain will be allocated to the relevant accounting period based on the date of disposal of the property. **(½)**

The charitable donations will be deducted from the profits of the accounting period in which they are paid. **(½)**

(3)

7. Credit/deficit on non-trade loan relationships

	£	£	
NTLR credits			
Interest on trade debt		-	½
Interest on overpaid Corporation Tax		425	½
		425	
NTLR debits			
Interest on bank loan			
3.5% x 2,000,000 x 9/12	52,500		1
Loan arrangement fees			½
24,000/5 x 9/12	3,600	(56,100)	1
NTLR deficit		£(55,675)	
			(3)

Where loan taken as a trading loan, half mark each for correct treatment and half for calculation of amount to include.

8. Capital gains tax on sale of van and pickup truck

Both the van and the pickup truck qualify as tangible wasting assets as they have a useful life of less than 50 years. **(½)** Normally, tangible wasting assets are exempt from Capital Gains Tax. However, the exemption does not apply where capital allowances have been claimed on the asset, which is the case here as they have been used in David's businesses. **(1)**

A capital loss of £3,500 (£8,500 - £5,000) was made on the van. The loss is not allowable for Capital Gains tax as relief will have been given through capital allowances. **(½)**

A capital gain of £3,500 (£7,500 - £4,000) was made on the pickup truck. The gain is taxable. As the pickup truck is a chattel, then the gain is restricted to 5/3 of the excess of the sales proceeds over £6,000 i.e. £2,500 ((£7,500 - £6,000) x 5/3). **(1)**

(3)

9. Capital gains tax disposals

1) Although the disposal of a principle private residence is normally exempt, the part used solely for business purposes is chargeable and subject to tax at 18% and/ or 28%. **(1)**
(½ mark for relevant comments about the tax status of the property).
2) The shares gifted to Sam's civil partner would be treated as a no gain/no loss transfer and so no liability to Capital Gains Tax would arise. **(1)**
(½ mark for comments on market value transfer or gift relief.)

(2)

10. Capital Gains Tax computation

		£	
Sale of shares			
Sales proceeds		75,000	
Cost		(100)	½
Gain: qualifies for BADR		£74,900	½
Sale of shop			
Sales proceeds		250,000	
Cost		(80,000)	½
Gain		£170,000	
Gain qualifying for BADR			
No rent charged	(1 June 2010 to 31 May 2014)		
	4/11 x 170,000	61,818	1
25% rent charged	75% x 170,000 x 7/11	81,136	1

Total qualifying gain	£142,954	½
		(4)

11. VAT deregistration

When Huan ceases to trade she will be compulsorily required to deregister for VAT. **(1)** . The deregistration will take effect on 31 December 2022. **(½)** Huan must notify HMRC of her cessation by 30 January 2023. **(½)**

The unsold stock and the fixtures will be valued and the VAT accounted for on the last return to 31 December 2022 as a deemed supply, **(1)** unless the VAT is less than £1,000. **(½)**

Max (3)

12. Value for supplies

	£	
Retail sale		
Gross	180	
VAT (1/6 x 180)	30	½
Net	£150	
Wholesale sale		
Net after discount (750 x 95%)	713	**1**
VAT (20%)	143	½
	£856	

Martlin Ltd has two methods to deal with the prompt payment discount. The company can either issue a credit note for the amount of the discount (£38 plus VAT of £8) **(½)** or they can include the following information on the invoice:

1) The terms of the discount. **(½)**
2) The time when the invoice must be paid. **(½)**
3) A statement that the customer can only recover the VAT paid to the supplier. **(½)**

Max (4)

November 2022 Examination

PAPER 2

Business Taxation

Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

13.

1)

Accountancy firm
Address

Jayden Skelly
Address

Dear Jayden

(a)

I enclose calculations relating to your last two tax years of trading and information about the treatment of further business receipts and expenses.
(letter format 1 mark)

15-month period ended 31 December 2021

	£	
Accounting profit	52,000	
Jayden's salary	24,000	**(1/2)**
Sam's salary (£5,600 – £1,500)	4,100	**(1/2)**
Tax compliance fee (non-trading aspect)	100	**(1/2)**
Computer equipment purchase	3,000	**(1/2)**
Depreciation	1,460	**(1/2)**
Gifts to customers	600	**(1/2)**
Motor expenses (1,600 × 20%)	320	**(1/2)**
Less capital allowances (W)	(8,228)	**(1/2)**
	£77,352	

Working: Capital allowances

	Main pool	Private use asset		Total allowances	
	£	£		£	
TWDV at 1 October 2020	8,760	16,085			
Additions	3,000				**(1/2)**
No AIA/WDA					**(1/2)**
Disposals	(2,000)	(18,000)			**(1/2)**
	9,760	(1,915)			
Balancing allowance	(9,760)			9,760	**(1/2)**
Balancing charge		1,915	× 80%	(1,532)	**(1)**
	£0	£0		£8,228	

(8)

(b)

Tax years:

	£	
2020/21		**(1/2)**
Year ended 30 September 2020	83,000	**(1/2)**
2021/22		
15-month period ended 31 December 2021	77,352	**(1/2)**
Overlap profits	(6,500)	**(1/2)**
	£70,852	

Working: overlap profits from commencement of trade
1 October 2010 to 5 April 2011
6/12 × £13,000 £6,500 **(1)**

(3)

(c) **(maximum 3 marks)**

As you previously wrote off these amounts, any amounts received from customers will be taxable income (post-cessation income) **(1/2)** in the year of receipt (2022/23). **(1/2)**

The debt collection fee can be set against the receipts. **(1/2)**

You could elect to have such receipts taxed in the year of cessation (2021/22) **(1/2)** but this is unlikely to be beneficial given you will be taxed at a lower marginal rate (basic rate) in 2022/23. **(1/2)**

If there are no receipts, or if they are lower than the debt collection fee, the fee can be deducted against your total income in 2022/23. **(1/2)**

Both the election to tax receipts in the year of cessation and the claim to deduct the fee against your total income must be made by 31 January 2025. **(1/2)**

Credit given for this date for either claim – don't need both

Please let me know if you require any further clarification.

Yours sincerely

An Adviser

2)

Letter of disengagement (maximum 4 marks)

**denote marks for application to the three specific tasks in this scenario (2021/22 return, advice on post-cessation receipts and expenses, 2022/23 / future returns - up to 1/2 mark each) which may be given in different places, provided comment is appropriate. No credit given for willingness to assist new advisers – there are none.*

The letter of disengagement will include

- a summary of services provided to the date of ceasing to act **(1/2)** i.e. tax returns up to and including 2021/22 **(1/2)***, advice on post-cessation receipts and payments **(1/2)***
- a note of further action to be taken by our firm **(1/2)** *(tax return for 2021/22/advice could be mentioned here for the application credit instead)*
- a note of any outstanding matters that Jayden will need to address **(1/2)** such as his tax returns from 2022/23 onwards **(1/2)***
- details of any impending deadlines and the action required **(1/2)** *e.g. re 2021/22 tax return*
- details of any outstanding fees **(1/2)** *application credit possible if query whether charged for advice on post-cessation amounts yet (as not separately mentioned in £500 fee) or whether £500 fee is outstanding*
- a note indicating that our firm will advise HMRC of the change **(1/2)**

Total (18)

14.

1) **Enquiry into corporation tax return for the year ended 31 August 2020**

The corporation tax return was due for submission by 31 August 2021. **(1/2)**

The return was therefore submitted late **(1/2)** and so the enquiry window extends to 12 months from the end of the quarter after the actual submission **(1/2)** i.e. 31 October 2022 **(1/2)**.

(2)

2) **Corporation tax payable for the year ended 31 August 2021**

	£	£	
Trading profit			
Draft figure	4,520,000		
Less interest on trading portion of loan			
(£42,000 × 10/12)	(35,000)		**(1/2)**
		4,485,000	**(1/2)**
Property income			
Rental income (£180,000 × 2/6)	60,000		**(1/2)**
Less 10% management fee	(6,000)		**(1/2)**
		54,000	
Gain	6,000,000		**(1/2)**
Less capital loss b/f			
£5,000,000 + ½ (6,000,000 – 5,000,000)	(5,500,000)		**(1½)**
		500,000	
NTLR			
Bank interest income	58,000		**(1/2)**
Less interest on let portion of loan			
(£42,000 × 2/12)	(7,000)		**(1/2 + 1/2)**
		51,000	
Taxable total profits		5,090,000	
Corporation tax payable at 19%		967,100	**(1/2)**

For the maximum use of the brought forward capital loss, the directors must allocate an amount of £5 million as chargeable gains deductions allowance **(1/2)** in the company's tax return. **(1/2)**

(7)

3) **Corporation tax payable for the seven-month period ended 31 March 2022**

14 March 2022	£840,000 × 3/7 = £360,000	**(1)**
14 June 2022	£360,000	**(1)**
14 July 2022	£840,000 × 1/7 = £120,000	**(1)**

Marks for

Correct first date/3 months later (provided 14th)/correct last date

amount/same as first amount/balancing amount (not 1/3rd or ¼) **(3)**

4) **Board meetings (maximum 2 marks)**

Board meetings must be conducted in accordance with the Articles of Association. **(1/2)**

Reasonable notice must be given to all directors in the UK. **(1/2)**

There must be a quorum present, which is the minimum number needed for a valid meeting (as per the Articles of Association). **(1/2)**

Decisions are taken on a majority basis. **(1/2)**

A chairperson presides over the meeting. **(1/2)**

5) **Accounts submission date**

31 December 2022 **(1)**

(1)

Total (15)

15.

1)

Trading profit = £379,000 – £101,608 = £277,392 **(1/2)**

	General pool	Special rate pool	Total allowances	
	£	£	£	
TWDV b/f	87,000	948		
Additions qualifying for AIA:				
Solar panels		30,000		**(1/2)**
Machinery	41,000			**(1/2)**
Strengthening floor	8,000			**(1/2)**
AIA	(49,000)	(30,000)	79,000	**(1)**
Addition qualifying for FYA				
Electric vehicle charging point:	6,000			**(1/2)**
FYA @ 100%	(6,000)		6,000	**(1/2)**
	87,000			
WDA @ 18%	(15,660)		15,660	**(1/2)**
WDA – small balance write off		(948)	948	**(1/2)**
	£71,340	£0	£101,608	

(5)

2)

	Leon	Maggie	Victor	Total	
	£	£	£	£	
1 April 2021 – 31 August 2021					
£277,392 **(1/2)** × 5/12 **(1/2)** 1:1 **(1/2)**	57,790	57,790		115,580	
1 September 2021 – 31 March 2022					
£277,392 × 7/12				161,812	
Interest 7/12 **(1/2)** × 2% × £90,000:£120,000:£30,000 **(1/2)**	1,050	1,400	350	(2,800)	
Salary £60,000 × 7/12 **(1/2)**	35,000			(35,000)	
				124,012	**(1/2)**
PSR 30:50:20	37,204	62,006	24,802		**(1/2)**
	£131,044	£121,196	£25,152		

(4)

3) **(1 mark per double entry)**

Dr Bank/cash	£30,000	
Cr Victor's capital account		£30,000
Dr Profit and Loss account	£25,152	
Cr Victor's current account		£25,152
Dr Victor's current account	£10,000	
Cr Bank/cash		£10,000

(3)

4) **(3 marks maximum)**

Victor pays Class 1 (primary) **(1/2)**, Class 2 **(1/2)** and Class 4 **(1/2)**.

There is an annual maximum of NIC payable by Victor **(1/2)** as he has both an employment and self-employment **(1/2)**.

This is not a set amount/HMRC will calculate the annual maximum **(1/2)** which determines the Class 2 and Class 4 payable. **(1/2)**

Expressing this in terms of test 1 and test 2 is equally acceptable for the last ½ mark.

Total (15)

16.

1)

Akshay has sold fixed plant and invested some of the proceeds in a building/land, both of which are qualifying assets for rollover relief. **(1/2)**

Both assets are used in the trade of his business. **(1/2)**

The storage building was bought within the one year prior to the sale of the fixed plant. **(1/2)**

The claim must be made by 5 April 2026. **(1/2)**
(2)

2)

	£	
Proceeds	500,000	
Cost (£338,000 **(1/2)** + £10,000 **(1/2)**)	(348,000)	
	152,000	
Less ROR	(52,000)	**(1/2)**
Chargeable gain (£500,000– £400,000 **(1/2)** – £0 **(1/2)**)	100,000	
Painting	30,000	
Less annual exempt amount	(12,300)	
Taxable gain	117,700	**(1/2)**
CGT		
(£37,700 – (£36,000 – £12,570 **(1/2)**)) **(1/2)** £14,270 × 10% **(1/2)**	1,427	
(£117,700 – £14,270) £103,430 × 20% **(1/2)**	20,686	
	£22,113	

(5)

3)

Akshay's tax adviser would have needed the cost of the building only/ the split of the amount of £400,000 between land and buildings **(1/2)** as only the building cost qualifies for SBA **(1/2)**.

They would have needed the date when the building was brought into use in the trade **(1/2)** as the SBA is only available for the portion of the period for which the building is in use. **(1/2)**

(2)

4) **(maximum 3 marks)**

There is a gain on the sale of the land and building (proceeds less cost). **(1/2)** This gain is increased by the earlier rollover relief claim **(1/2)** which reduced the base cost by £52,000 **(1/2)**.

The proceeds on the gain are also increased **(1/2)** by the total structures and buildings allowance on the building cost claimed by the time of the sale. **(1/2)**

There is no loss on the sale of the computer equipment **(1/2)** given this was eligible for capital allowances (whether claimed or not). **(1/2)**

Total (12)