CIOT - ATT-CTA

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Average for 2018 - 2021 = 40,000+15,000+15,000+20,000 = 90,000/4 = 22,500

5,000/22,500 = 22%

As the lowest amount (£5,000, for the fifth year) is less than 75% of the higher amount (£22,500, for the average of the first 4 years), then the 5 year averaging is possible.

5 yr averaging = 90,000+5,000 = 95,000/5 = £19,000

A claim must be made by the first anniversary of 31 January following the end of the last tax year, i.e. 31 January 2024.

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

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

Answer-to-Question-_2_

1st payment was due 31 January 2021. This was paid 25 January 2021 meaning there is no late payment penalty or interest arising from the first £3,000 she paid for Income tax.

2nd payment was due 31 July 2021. This was paid 31 August 2021, meaning it was 1 month late. There is no penalty as penalties only arise following 31 January following end of the tax year (31 January 2022). There will be interest charged for the 31 days between the due date and the payemnt date.
Interest = £3,000*2% = £60*31 days = £1,860

The balacing payment was due 31 Janaury 2022. £9,000 was paid 26 January 2022, so no penalty or interest will arise on this. However, £2,500 wasn't paid until 30 April 2022. This means some of the balacing payment was paid 89 days late (3 months).
The penalty arising = £2,500*5% = £125
Interest arising = £2,500*2% = £50*89 days = £4,450

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

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

Answer-to-Question-_3_

Comapny.

1) Gym memberships is deemed a personal expense for the directors. Therefore it should be taxed on the directors through payroll, or it can be included on the companies PAYE Settlement Agreement (PSA) if they have one. Therefore these are allowable deductions from CT.

2) The part of depreciation not relating to the finance lease is dissalowed and should be added back to the profits per the accounts, including it in CT.
For the finance lease, depreciation is allowable as a deduction for CT, but it is restircted where the CO2 of the car is more than 50g/km, and 15% of the depreciation is dissalowed and is added back for CT purposes.

3) The cost of the premium payable for the office premises is incurred wholly and exclusively for work purposes. Therefore this is an allowable deduction for CT purposes.

4) Legal fees for the termination of a lease is classed as capital expenditure. This is therefore disallowed and should be added back to the profits as per the accounts for CT purposes.

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

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

Answer-to-Question-_4_

Feb 2021 = bought leasehold for £125,000
98yrs.
june 19 = bought freehold interest for 200K.
June 22= sold for 500,000

CGT is charged to CT.

Sales proceeds		500,000	
Less: Cost		(125,000)	
Less: Indexation allowance	125,000*(278.1-219.2/219.2)	(33,588)	
Less: Cost		(200,000)	
Less: Indexation allowance	200,000*(278.1-278.1/278.1)	NIL	
Gain		141,412	
Tax @ 19%		26,868	

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

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

Answer-to-Question-_5_

The accounting period for the year of cessation is the day after the last account period to the date of cessation. The company ceassed trading on 28 Feb 2021.

Closing year accounting period for CT purposes = 1 January 2021 - 28 February 2021.

As there is no trading occuring for 1 March 2021 - 31 March 2022, there should be no reporting requirements.

CT return will be due 12 months after the end of the period of accounts, i.e. 31 March 2023.

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

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

Answer-to-Question-_6_

During the period of accounts of 1 January 2021 to 30 June 2022 (18 month) there will be 2 Accounting periods: 1 Janaury 2021 - 31 December 2021 and 1 January 2022 - 30 June 2022.

Trading profits will be calculated together and apportioned between the two accounting periods (12/18 and 6/18).

Capital allowances (CA) will require 2 seperate compuattions. So once the trading profits have been apportioned, the CA's will need to be worked out for each accounting period seperately.

The gains araising on the sale of the peorperty will be charged to the accounting period in which they arose (i.e. the date of disposal). Any losses made will need to be either carried back or carried forward against other gains made by the company.

Qualifying charitable donations are only deducted from the trading profits in the accounting period in which they were paid.

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

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

Answer-to-Question-_7_

Interest receiveable		1,500	
Interest receivable on overpaid CT		424	
Less: interest payable		2M*3.5%*3months = (210,000)	
Less: other expenses incurred on non-trading loans		(24,000)	
Trading credit/(deficit)		(232,076)	

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

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

Answer-to-Question-_8_

The van:

Proceeds		5,000	
Less: Cost		(8,500)	
Gain/(Loss)		(3,500)	

As the sales proceeds were less than £6,000, it is demed a wasting chattle and therefore loss is restricted, by deeming proceeds to be £6,000.

Deemed proceeds		6,000	
Less: Cost		(8,500)	
Gain/(Loss)		(2,500)	

Pickup Truck:

Proceeds		7,500	
Less: Cost		(4,000)	
Gain/(Loss)		3,500	

As the cost was less than £6,000, it is deemed a wasting chattle and therefore gain is restircted to: 5/3*(gross proceeds-£6,000) = 5/3* (7,500-6,000) = £2,500.

Therfore the gain is restricted to £2,500.

As there was also a £2,500 loss made in the tax year, there would be no chargeable gains and the annual allowance would be lost.

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

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

Answer-to-Question-_9_

The home:

The home will qualify for principal private residence relief (PPR) where it was his main residency and he lived there for the whole duration of his ownership. This includes the garages, as these were part of the home and are deemed as relevant buildings.

The shares

Sahres which are gifted to a spouse are deemed as being gifted at no gain, no loss. Therefore the shares gifted from Sam to his civil partner Jack give rise to no capital gains tax.

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

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

Answer-to-Question-_10_

Business asset disposal relief (BADR) is given where there is a material disposal of business asset, such as a sole trader or partner selling part or whole of the business; or company directors selling shares in their personal trading comapny.

The sale of the Trunkin Shares for a gain of £74,900 (£75,000-£100) will qualify for BADR, as John has more than 5% of share holdings (he is the sole shareholder) and these have been held for more than 2 years (they were bought in 2010). This means John is selling shares in his personal trading comapny. And therefore the gain will be taxed at 10%.

John owned the shop for 11 years (it was bought in 2010), and the business had used it for this whole time (since it was incorporated in 2010). Therefore this is deemed as an associated disposal, as the shop was used by Trunik Ltd, and therfore this will also qualify for BADR.

He must claim for BADR by the first anniversary of 31 January following the end of the tax year (31 January 2024).

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

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

Answer-to-Question-_11_

Deregistration of VAT can be done in 2 ways.

Compulsory VAT deregistration is where a business is sold or ceases to make taxable supplies.

Coluntary VAT deregistration is where a business is exepected to make taxable supplies in the next 12 months of less than £83,000 (the current deregistration threshold).

As Huan is going to be ceasing to trade on 31 December, she will use compulsary deregistration. She will must inform HMRC of this within 30 days of the cesation date, i.e. 30 January 2023.

Deregistration will then take immediate effect.

Any good held at the date of deregistration must be accounted for on the final VAT return, unless the VAT is no more than £1,000. This includes the unsold stock kept for personal use and the fixtures auctioned in February 2023.

The final VAT return must be submitted and paid electronically one month and 7 days following the VAT period.

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

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

Answer-to-Question-_12_

1) 20% of 180 = £36

2) 750*95% = £712.50* 120% = 855*20% = £171

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

CIOT - ATT-CTA

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

1)

Jayden's Address

ATT student company address

1 November 2022
Dear Jayden,

Thank you for contacting us about your 2021/22 Tax return and trading profits.

Tax Adjusted Trading Profits
Yoru tax adjusted trading profits for the 15-months ending 31 December 2021 are as follows:

Profits per accounts		52,000	
Add: Disallowed expenditure			
Jayden's Salary	24,000		
Jayden's Tax Return	100		
Computer Purchase	3,000		
Depreciation	1,460		
Motor expenses	1,600		
Sam's Salary	NIL		
Tax compliance - Trading profits	NIL		
Gifts to Customers	NIL		
		30,160	
Tax adjusted trading profits		82,160	
Less: Capital allowances (w1)		NIL	
Add: Balancing		315	

Charge			
Less: Balacing Adjustment		(6,760)	
Fully taxed asjusted trading profit		75,715	

(w1)

	FYA 100%	AIA 100%	Main pool	Special Pool	Private Use Assets	Total CA's
Tax wdv b/f			8,760		16,085	
Motor expenses					1,600	
Disposal of car					(18,000)	
Disposal of Plant			(2,000)			
Balance			6,760		(315)	

Assessible trading profits for the last two years of trade

Assessible trading profits for 1 October 2019 to 30 September 2020 were £83,000 and are taxable in the 2020/21 tax year.

Assessible trading profits for the 15 months ending 31 December 2021 are £75,715. This will be taxable in 2021/22 under current year basis rules.

As only final tax year of trade is in respect to 15 months, rather than the standard 12 months, overlap profits brought forward from previous years of trade can be brought forward to reduce the tax liability.

Debt Collection Fee

Any debts you claim back from your customers which were written off in the final accounts will be subject to income tax.

You can deduct the debt collection fee from the amounts recieved as an allowable expense, but this can only reduce the debts collected to NIL, it cannot reduce your overall tax liability.

Yours faithfully,
ATT Students

2)
It should icnldue the following:
- Why the contract is being terminated (Jayden will be preparing his own)
- Explain how much is payable or owed for services already performed or agreed (such as the fees for his 2021/22 tax return and the asessible profits calculation)
- Confirmation of any retainer or advanced fee reimbursement
- outline any final tasks which have been agreed and when they shall be completed.

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

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

Answer-to-Question-_14_

1) As the Corporation tax return was filled late, HMRC have 12 months from the next quarter day following the late filling.
The 12 months from the next quarter day following the late filling is 31 October 2022. This means HMRC are within the deadline by 16 days.

2)
Loan is a tax reducer at 20% = 42,000*20% =

Profits per accounts			4,250,000
Add bank interest - 500	57,500		
Dividends paid	NIL		
Add: gain on sale of shares	6,000,000		
			6,057,500
			10,307,500
Less: Trading loan relationship			(35,000)
Add: Trading deificit			7,000
Add: Rental Income	180,000*2/6 = 60,000 - 10% = 54,000		54,000
Less: Loss carried forward			(8,000,000)
Profits:			2,333,500
Tax @ 19%			443,365

Trading loan relationship = 42,000*10/12 = 35,000 allowable deducion

No interest recieved.

Interest payable on NT loan = 42,000*2/12 = 7,000
Loan deficit = 7,000

3) Large company so must pay in installements.

1st installment is 14th day of month 7 = 14 March 2022.
Amount due = 840,000/2 = £420,000

Final installment is due 3 months and 14 days after the end of the accounting period = 14 July 2022. Amount due = £420,000

4)
Board meetings are held between partners/directors of a company. They will then discuss any changes they may wish to make. Each director then usues their voting rights to decide on whether or not they wish to accept the proposed changes, such as changing an accounting period.

5) The accounts for the seven-month period ended 31 March 2022 must be submitted as part of the corporation tax return, which is due to HMRC 12 months after the period of accounts ends. This is 31 March 2023.

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

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

Answer-to-Question-_15_

1)

Tax adjusted trading profits		379,000	
Less: CA (w1)		(100,717)	
Fully tax adjusted profits		278,283	

(w1)

	AIA	FYA	GP	SRP		
Tax wdv b/f			87,000	948		
Solar Panels	30,000					
Machinery	41,000					
Floor	8,000					
Electric charging points		6,000				
Balancing adjustment	79,000	6,000	87,000	948		
100% AIA	(79,000)					79,000
100% FYA		(6,000)				6,000
WDA 18%			(15,660)			15,660
WDA 6%				(57)		57
Tax wdv c/f	NIL	NIL	71,340	891		
CA Claim						100,717

AIA allowance = 1,000,000 * 9/12 = 750,000
200,000*3/12 = 50,000
= 800,000 MAX

Electrical point installation has CA within the tax year as the obligation to pay is the date they were installed (November 2021)

2)

	Leon	Maggie	Victor	Total
1/4/21-31/8/21 (5m)	£57,975.50	£57,975.50	NIL	278,283*5/12 = 115,951
1/9/21-31/3/22 (7m)				
Salary	60,000*7/12 = 35,000	NIL	NIL	35,000
Interest in capital	90,000*2%*7/12 = 1,050	120,000*2%*7/12 = 1,400	30,000*2%*7/12 = 350	2,800
Share of profits	124,532*30% = 37,360	124,532*50% = 62,266	124,532*20% = 24,906	278,283-35,000-2,800 - 115,951 = 124,532
Assessible trading profit				278,283

3)

Victor invests capital into business:
DR Bank account £30,000
CR Partner Capital Account £30,000

Victors allocation of profits:
DR Income statement £24,906
CR Appropriation Account £24,906

Victor drawings from partnership:
DR Partner current account £10,000
CR Bank account £10,000

4)
Victor will have paid Class 1 primary NIC for the job he has in another business throughout 2021. After he becomes

partner on 1 September 2021, he will be subject to Class 2 and Class 4 NIC.

Class 2 NIC should be paid at £3.05 a week (£159 a year); and Class 4 NIC will be paid based on the the assessible trading profits he makes.

As he will be both employed and self-employed, he will need to be assessed for the overall NIC to be paid via 2 annual maxima tests.

The first test assesses the amount of Class 2 NIC payable and whether or not there is a refund due for Class 1 primary NIC.

The second test determines the correct amount of Class 4 NIC payable.

--------------ANSWER-15-ABOVE--------------

--------------ANSWER-16-BELOW--------------

Answer-to-Question-_16_

1) Rollover relief is available when an individual carrying on a trade disposes of a qualifying asset and buys a new qualigying asset. The new asset must be acquired 12 months before or 36 months after (Askay bought and sold in the same year so this applies).

Qualifying assets include fixed plant and machinery (like Akshay sold); land and buildings (which Akshay bought); goodwill; etc.

A claim must be made within 4 years of the end of the later tax year in which:
- Gain arises
- New asset acquired

As they were sold and bought in the same year it will be within 4 years from the end of 2021/22 (5 April 2026).

2)
Rollover relief:

Sales proceeds		500,000	
Less: Cost	338,000+10,000	348,000	
Gain before relief		152,000	
Less: Rollover relief		(52,000)	
Gain (proceeds-cost of replacement)	500,000-400,000	100,000	

Gains:

Gains from sale of plant and machinery		100,000	
Gain from painting		30,000	
Total Gains		130,000	
Less: Annual allowance		(12,300)	
		117,700	
Tax @ 20%		23,540	

3)
He would need to know what costs are qualifying expenditure:
- Construction costs
- Land preparation costs
- Demolition costs

It does not allow costs incurred for:
- Land (including legal fees and stamp duty)
- Planning permission

4)
The computer will have capital allowances deducted from it. Where the computer is sold for more than the value of the pool (a negative value arises at the balacing adjustment), then a balancing charge arises. If the sale of the computer is less than the tax written down value, capital allowance are calculated as normal where the tax written down has the sales porceeds deducted for the balacing adjustment value.

Sale of the site will allow for some structure and building allownace at qualifying expenditure * 3% * no. of months in accounting period before sale/12. The total amount of SBA claimied will be added to the consideration recieved in the calculation of chargeabke gains/allowable capital loss.