



## **May 2023 Examination**

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**PAPER 2**

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**BUSINESS TAXATION**

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Part I Suggested Answers

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

1. (4 marks)

	Total £	Julia £	Kamal £	Larry £	
1 January 2022 – 30 September 2022					
£220,000 × 9/12 (and 3/12 below)	165,000				(1/2)
Salary 9/12 × £40,000	(30,000)	30,000			(1/2)
	135,000				(1/2)
PSR 1:1:1	<u>(135,000)</u>	45,000	45,000	45,000	(1/2)
1 October 2022 – 31 December 2022					
£220,000 × 3/12	55,000				
PSR 60:40	<u>(55,000)</u>	<u>33,000</u>	<u>22,000</u>	<u>45,000</u>	(1/2)
		<u>108,000</u>	<u>67,000</u>		

2022/23:

	£	£	£	
Julia/Kamal – current year basis	<u>£108,000</u>	<u>£67,000</u>		(1/2)
Larry: cessation of trade				
Profits from 1 January 2022			45,000	(1/2)
Less overlap profits			<u>(8,000)</u>	(1/2)
			<u>37,000</u>	

2. (3 marks maximum)

Each payment is two months late (1/2) being due by 31 January 2023 (1/2).

Interest is charged on both late payments (1/2) at 3.5% (1/2) × 2/12, for the two months from the due date until the date of payment.

A penalty is payable due to the late balancing payment only (1/2) of 5% of the unpaid amount (1/2) as the payment is over 30 days late (1/2).

*Credit given for recognition of 'reasonable excuse'.*

3. (4 marks)

Factors justifying that Liam is not an employee

Control. Although the firm sets the dates of the events, they do not control Liam's work as he chooses the venue and controls who attends.

Personal service/right of substitution. Unlike an employee, Liam is able to send a substitute, with a friend attending the event when Liam was ill.

Financial risk. If Liam cannot attract enough guests, the event is cancelled at a cost to Liam of a possible lost venue deposit, and the time spent organising the event for no return.

Opportunity to profit. Liam receives a set fee so is able to profit if he negotiates costs well with the venue.

*½ mark for identifying the factor, ½ mark for specific application to the scenario. Credit to be given for other factors relevant to the facts of the scenario.*

4. (3 marks)

Class 2: (£3.15 (1/2) × 52) × 6/12 (1/2)	£	
Class 4:	82	
£(50,270 – 11,908) (1/2) × 10.25% (1/2)		3,932
£(100,000 – 50,270) (1/2) × 3.25% (1/2)		1,616
		<u>5,630</u>

*Tutorial note: This answer uses the information from the ATT Tax Tables. Equal credit is awarded to students using the actual rates applying for 2022/23.*

**5. (1 mark per double entry)**

Dr Bank/cash	£20,000
Cr Carrie's capital account	£20,000
Dr Profit and Loss account	£80,000
Cr Carrie's current account	£80,000
Dr Carrie's current account	£36,000
Cr Bank/cash	£36,000

**6. (3 marks)**

Gain on fixed plant £(800,000 – 710,000)	£	
Deferred gain on building (W)	90,000	(1/2)
Chargeable gains	<u>100,000</u>	(1/2)
	<u>190,000</u>	

Working: sale of building

Gain on sale of building	£	
Gain deferred by rollover relief (balancing figure)	340,000	
Chargeable gain = net proceeds not reinvested	<u>(100,000)</u>	(1/2)
£(960,000 (1/2) - £10,000 (1/2) – 710,000 (1/2))	<u>240,000</u>	

**7. (3 marks)**

Proceeds	£	
Less £90,000 × (1/2) (£150,000 (1/2) / (£150,000 + 370,000) (1/2))	150,000	(1/2)
Chargeable gain	<u>(25,962)</u>	
Less annual exempt amount	124,038	
Taxable gain	<u>(12,300)</u>	(1/2)
CGT @ 20%	111,738	
	<u>£22,348</u>	(1/2)

**8. (3 marks)**

Brox Ltd has augmented profits of £830,000 (£780,000 + £50,000 (1/2)) for the six-month period.

The company is therefore large for instalment purposes in this period as its augmented profits exceed the relevant limit for instalments (1/2) of £750,000 (6/12 × £1,500,000) (1/2).

However, augmented profits

- in the previous period of £1,450,000 (£1,400,000 + £50,000) did not exceed the limit of £1,500,000 (1/2) and

- in this six month period do not exceed £5,000,000 (£10,000,000 × 6/12) (1/2).

Instalments are therefore not payable for the six months ended 31 March 2023 (1/2).

9. (3 marks maximum)

The property loss is automatically (or state no claim is required) (1/2) deducted from the total profits for the year ended 31 March 2023 (1/2).

The non-trading loan relationship (NTLR) deficit should be carried back to the year ended 31 March 2022 (1/2) and set against NTLR income (1/2). If any deficit remains after a carry back claim (1/2) not given if state do current year claim first, a claim should be made to set this against any of the profits in the year ended 31 March 2023 (1/2).

The current year or carry back claims for the NTLR deficit should be made by 31 March 2025 (1/2).

10. (4 marks)

1 February 2021 (1/2) (1/2) (for this start, and no date before this) – 31 March 2021 (1/2) (1/2) (for ignoring 1 March 2021, and then ending day before start to trade)

1 April 2021 – 31 March 2022 (1/2) (12m AP ending before POA end)

1 April 2022 – 30 April 2022 (1/2) (ending when POA ends)

1 May 2022 – 30 April 2023 (1/2) (1/2) (ignoring 1 January 2023, ending when POA ends)

11. (4 marks)

	£	
Draft adjusted trading profits	1,840,000	
Add:		
Legal fees for the issue of share capital	13,000	(1/2)
Cash gift to registered charity	20,000	(1/2)
Interest payable on overdue CT	160	(1/2)
Interest payable on a loan to buy a machine	0	(1/2)
Bank arrangement fee on the machine loan	0	(1/2)
Running costs of directors' cars used 20% for business purposes	0	(1/2)
Penalty for security breach concerning clients' data	50,000	(1/2)
Dividends paid to shareholders	100,000	(1/2)
	<u>2,023,160</u>	

12. (maximum 3 marks)

The return for the year ended 31 March 2021 was submitted on 1 January 2022 (1/2). HMRC is too late to open an enquiry as the deadline was 1 January 2023, 12 months after the actual filing date (1/2).

HMRC may be able to make a discovery assessment (1/2) to recover the amount of lost tax due to an incorrect deduction in 2021 (1/2).

For a discovery assessment to be made, the loss of tax must be due to a careless or deliberate action by the company (1/2) or the Inspector could not reasonably be expected to be aware of the incorrect treatment when the deadline for opening an enquiry passed (1/2).

The time limit for the discovery assessment is (minimum) four years from the end of the accounting period, 31 March 2025, and so this deadline has not passed. (1/2)



## **May 2023 Examination**

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Part II Suggested Answers

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### 13. Joseph

#### 1) Assessable profit/loss for the period to 30 June 2022

		£	
Profit per draft accounts		43,600	
Profit on sale of herd	(240,000 – 57,000)	(183,000)	1
Goods for own use	Sale value	200	1/2
Redundancy costs	(15,000 – 4 x 3,560)	760	1
Farmhouse costs	(6,760 x 40%)	2,704	1/2
Farm cottage	No adjustment as taxed as remuneration	-	1/2
Private motor expenses	(25% x 6,250)	1,563	1/2
Fines		600	1/2
Repainting farmhouse	(3,470 x 40%)	1,388	
Repairs of farm buildings	Allowed as revenue	-	1/2
Waterproof coat	Dual purpose	400	1
Termination of lease	Capital	1,500	1/2
Depreciation		17,000	1/2
Loss on disposal of fixed assets		16,000	1/2
		<u>(97,285)</u>	
Capital allowances	See working	50,300	1/2
Trading loss		<u>(46,985)</u>	(8)

#### Working – capital allowances

Capital allowances	General pool £	Private use car £	Private	Allowances /charges £	
WDV b/f	5,600	4,400			
Addition:					
Trailer (no allowances claimed)	6,000				1/2 1
	<u>11,600</u>				
Sale proceeds	(54,000)				1/2
Market value on cessation	(5,200)	(8,000)			1
Balancing charge	<u>47,600</u>	<u>3,600</u>	25%	<u>50,300</u>	1 (4)
					(12)

#### 2)

##### (a) Terminal loss

		£	
2022/23 (6 April to 30 June 2022)	3/6 x £50,000	(25,000)	1/2
Overlap relief		<u>(16,000)</u>	1/2
		<u>(41,000)</u>	
2021/22 (1 July 2021 to 5 April 2022)			
1 January 2022 to 5 April 2022	3/6 x £50,000	(25,000)	1/2
1 July 2021 to 31 December 2021	6/12 x £10,800	5,400	1/2
		<u>(19,600)</u>	
Terminal loss		<u>(60,600)</u>	(2)

**(b) Net income**

	Total £	2019/20 £	2020/21 £	2021/22 £	2022/23 £	
Salary		25,000	28,000	14,000	36,000	
Dairy farming		32,600	17,900	10,800	-	<b>1</b>
		<u>37,600</u>	<u>35,900</u>	<u>24,800</u>	<u>36,000</u>	
Loss relief (s89)	(60,600)	(31,900)	(17,900)	(10,800)	-	
Loss relief (s64)	(5,400)			(5,400)	-	
		<u>25,000</u>	<u>28,000</u>	<u>5,300</u>	<u>36,000</u>	<b>½</b>

**Loss memo**

	£	
6m to 30 June 2022	(50,000)	
Overlap relief	<u>(16,000)</u>	
	(66,000)	
Set against 2021/22 (s89)	<u>10,800</u>	<b>1</b>
	(55,200)	
Set against 2020/21 (s89)	<u>17,900</u>	<b>1</b>
	(37,300)	
Set against 2019/20 (s89) balance	<u>31,900</u>	<b>1½</b>
	(5,400)	
Set against other income 2021/22 (s64) (66,000 – 60,600)	<u>5,400</u>	<b>1</b> <b>(6)</b>

Tutorial note: although the question states 'earliest possible relief' most of the remaining income after s89 in 2021 is covered by the personal allowance and so credit is awarded to candidates who alternatively used the remaining loss in 2022/23.

**Total (20)**

#### 14. Elish, Li and Rafael

Elish qualifies for business asset disposal relief (BADR) (½) as she has made a material disposal of a business asset (½). Seblat Ltd is Elish's personal company. For a period of more than two years (½), she has been a director of the company (½) and owned more than 5% of the ordinary share capital (½). It does not matter that she only works for 10 hours a week as there is no minimum hours requirement (½).

As she has made a material disposal of a business asset (the shares in Seblat Ltd) (½), she can also claim BADR on the disposal of the offices (½). She has owned the offices for at least 3 years (½), it has been used in the business for at least 2 years (½) and is being sold at the same time as the shares (½). The relief will however be restricted as she has charged rent for the offices (½). BADR is only available on 25% of the gain (½). Max (5)

Li is eligible for investors' relief (1) on the disposal of the shares for which she subscribed in 2018 as she has held the shares for more than three years (½) and was not an employee of the company (½) at the date that she subscribed for the shares. There is no minimum shareholding requirement (½).

The shares acquired in 2019 are not eligible for investors' relief, as the shares were purchased (1). Max (3)

Rafael does not qualify for business asset disposal relief or investors' relief (1) as although he has more than 5% of the share capital of the company, they are not ordinary shares and therefore are non-qualifying (1).

Max (2)

Each investor has an annual exempt amount available which should be set first against gains which qualify for neither relief (1). Rafael may pay tax at 10% or 20% depending on his other income (½). The gains qualifying for business asset disposal relief or investors' relief will be taxed at 10% (½) and non-qualifying gains at 20% as the qualifying gains use the remaining basic rate band first (½). Max (2)

Total (12)



## 15. Scalit Ltd

### 1) Calculation of total taxable profits

	£	
Draft profit	245,000	
Legal costs	17,000	1/2
Planning costs	14,000	1/2
Depreciation	26,000	1/2
Loss on sale of equipment	8,500	1/2
	<u>310,500</u>	
Capital allowances	<u>(183,620)</u>	1/2
Total taxable profits	<u><u>126,880</u></u>	
Tax due at 19%	£24,107	1/2
		<b>(3)</b>

### Capital allowances

	£	General pool £	Special rate pool £	Allowances £	
WDV b/f		48,000	18,000		
Disposal proceeds (130% x £12,000)				(15,600)	<b>1</b>
Director's car FYA 100% (no private use adj)	40,000 <u>(40,000)</u>			40,000	<b>1</b>
Digital printer FYA 130%	65,000 <u>(84,500)</u>			84,500	<b>1</b>
Electrical work AIA (more relief than 50% special rate allowance) (half mark will be given for FYA)	15,000 <u>(15,000)</u>			15,000	<b>1</b>
Used printing machine AIA	50,000 <u>(50,000)</u>			50,000	<b>1</b>
		<u>48,000</u>	<u>18,000</u>		
WDA 18%/6%		<u>(8,640)</u>	<u>(1,080)</u>	9,720	<b>1</b>
WDV c/f		<u><u>39,360</u></u>	<u><u>16,920</u></u>		
Total allowances				<u><u>183,620</u></u>	<b>(6)</b>

**(9)**

## 2) Relief for development costs and consequences of sale.

The legal and planning costs for the development will not be eligible for structures and buildings allowance (½) nor will the land (½). The demolition (½) and construction costs (½) will be eligible for an allowance at 3% per annum (½). However, allowances will only be given once the building is brought into use (½).

If the building is sold, allowances would be time apportioned (½) and the allowances claimed added on to the sales proceeds for Capital Gains Tax (½). (4)

## 3) Preference shares

Sam could invest in preference shares (½). These shares entitle the holder to specified rights ahead of the other shareholders (½).

The rights are set out in the constitution (½) and may include payment of a dividend at a fixed rate in priority to other shareholders (½).

The dividend can only be paid out of distributable profits (½).

The dividend could be cumulative, which would mean that if it wasn't paid in one year, then double would be paid the following year (½).

The shares could also be participating preference shares, which means that after payment of the fixed rate dividend, Sam could also participate equally with other shareholders in any further dividend (½). Max (3)

Total (16)

## 16. Sonja

ATT Tax Advisers  
Anytown  
Anywhere

Date

Sonja XXX  
Home address  
Home town  
Anywhere

Dear Sonja

### VAT registration

Thank you for your recent email regarding your holiday cottages. I have responded to your questions below.

Although the partnership with Olaf is VAT registered, this does not mean that you will be VAT registered for the holiday cottages **(1)**. VAT registration applies to each "person". A person can mean a sole trader, partnership or limited company **(1)**.

The disadvantage of registering early are:

- (a) Registration increases prices to members of the public who are not able to recover that VAT **(½)**.
- (b) There is also a compliance burden of completing VAT returns **(½)**.

The advantages of registering early are:

- (a) Registration can give a business credibility **(½)**
- (b) Late registration penalties are avoided **(½)**.
- (c) Input tax can be recovered **(½)**.

In relation to the input tax on cleaning products and solicitor's fees:

It is possible to reclaim the VAT on the cleaning products **(½)** that are still owned at the date of registration – provided they were bought within the previous four years **(½)** which I assume will be the case. However you cannot reclaim to the extent that they were used either in your own home or in the business prior to registration if you register at a later date **(½)**.

You can only reclaim the input tax on the solicitor's fees if the services were provided within the six months before registration. **(½)**

You can include any recoverable input tax on your first VAT return. **(½)**

**Max (6)**

Tax advice that we give has to comply with the Standards for Tax Planning within Professional Conduct in Relation to Tax.

We cannot encourage participation in highly contrived schemes that seek to exploit loopholes. **(1)**

It is vital that full disclosure is given to HMRC of the scheme so that they have the opportunity to raise enquiries. **(1)**

HMRC may take a different view of the scheme than that suggested by your previous advisers. **(1)**

If challenged, then you may be charged to interest and penalties. **(1)**

**(4)**

Marks will be given for any relevant comments.

**Total (10)**