

CIOT - ATT

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Y/E 31 December 2022

£	£	£
Julia	Kamal	Total Larry
1 January 2021 to 30 Sept 2022 9 months		
£220,000/12 months*9 months		165,000
Annual Salary - Julia		
£40,000/12*9 months		(30,000)
30,000		
		135,000
45,000	45,000	45,000
Profit Sharing ratio 1:1:1		
1 Oct 2022 to 31 Dec 2022 3 months		
£220,000/12*3 months		55,000
22,500	32,500	
Profit Sharing ratio 50:40		
		-
97,500	77,500	45,000
Larry		
		£
Profit		
		45,000
Less unrelieved overlap profits		
		<u>(5,000)</u>
		40,000

Julia = £97,500

Kamal = £77,500

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

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

Answer-to-Question-_2_

Sole Trader

31 March 2023 - balancing payment for 2021 / 2022 and first payment on a/c for 2022 / 2023

2021 / 2022 - Balancing Payment

Balancing payment was due by 31 January 2023. Which is the 31 January following the tax year.

Interest

Any tax paid late attracts interest from the due date to the date of payment, this will be 2 months of interest (3.5%) calculated on the amount outstanding.

Penalties

Penalties apply as the payment is not made by the due date of 31 January 2023, as it is more than 30 days late it will be 5% on the amount outstanding.

2022/2023 - Payment on Account

Two payments on account will be due one on the 31st January 2023 and the other on 31 July 2024.

Interest

Any tax paid late attracts interest from the due date to the date of payment, this will be 31 January 2023 to 31 March 2023, this will be 2 months of interest calculated on the amount outstanding.

Penalties

Late payments on account do not attract separate penalties.

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

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

Answer-to-Question-_3_

The question of whether a worker is employed or self-employed is determined by HMRC practice and case Law. An employee is hired under a contract of service and self-employed person under contract for service.

Responsibility for determining the correct status rests with the business which engages the services for the worker, in this case Knowz.

Four factors must be present in a relationship for Liam to be an employee / contract of service. They are as follows:

Mutuality of obligation

Wage paid to the worker (not a third party).

Personal Service

Control.

The other factors taken into account in determining whether Liam is a supplier or is employed include the following:

Degree of integration into organisation.

Provision of own equipment

Basis of payment

Financial risk

Opportunity to profit

Business organisation

The number and length of engagements

The name of the contract and position of the parties.

In this case what justifies the firms treatment of Liam as a supplier is Liam's own financial risk in organising this event, where Liam was able to use his friend in his place and the fact that Liam chooses each venue and agrees the cost with each of the venues. These factors would indeed indicate based on the above that Liam is not an employee.

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

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

Answer-to-Question-_4_

Began Trading on 6 October 2022

Tax Adjusted Profits £100,000 to 5 April 2023

NIC's for 2022 / 2023

Self-employed so will need to pay Class 2 and Class 4 NICs.

Class 2 NICs - workings

Class 2 NICs are £3.15 per week which is £163.80 for a full year.

Therefore 6 months = £163.80 / 2

6 October 2022 to 5 April 2023 = £81.90

Class 4 NICs - workings

Class 4 NICs are 10.25% on trading profits between set limits and 3.25% on profits exceeding the upper limit.

For 2022 / 2023:

11,908 - 0 = 0

50,270 - 11,908 = 38,362 x 10.25% = 3,932.11

100,000 - 50,270 = 49,730 x 3.25% = 1,616.23

Class 4 NICs = £5,548.34

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

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

Answer-to-Question-_5_

Credit	Debit
Capital Investment	
Bank	20,000
Carrie's Capital Account	
20,000	
Allocation of Profit	
Profit & Loss Account	80,000
Carrie's Current Account	
80,000	
Drawings	
Carrie's Current Account	36,000
Bank	
36,000	

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

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

Answer-to-Question-_6_

Rollover relief applies when a trader sells one business asset and replaces it with another.

Qualifying assets include; Land and buildings, Goodwill (individuals only) and Fixed plant and machinery.

The new asset must be acquired in the period 12 months before to 36 months after the sale of the old asset.

Simon must put a claim in within four years of the end of the later of the tax year in which the gain arises or the new asset is acquired.

Chargeable Gains - Simon

2018/2019

Sale of building - workings for rollover relief

	£
Proceeds	960,000
Less legal fees	(10,000)
less cost	(610,000)
Gain before relief	340,000
Less rollover relief	250,000
Gain	90,000
(sales proceeds 960,000 less 710,000)	

Sale of Building Gain = £90,000

Base cost of replacement asset
£
Cost 710,000
Less Rollover relief (90,000)
Revised based cost 620,000

2022/2023
Sale of Fixed assets

Proceeds 800,000
Less
Revised Base Cost (620,000)
Gain 180,000

Chargeable Gain for 2022 / 2023 = £180,000

Less AEA (£12,300)
£167,700

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

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

Answer-to-Question-_7_

Capital Gains Tax 2022 / 2023 for Priya

Part Disposal workings

The allowable cost is

$A / (A + B) \times \text{acquisition cost}$

A = Gross proceeds

B = Value of part retained

$\pounds 150,000 / (\pounds 150,000 + \pounds 370,000) \times \pounds 90,000$

= $\pounds 25,962$

Proceeds	£ 150,000
Less	
Allowable cost (see workings above)	(25,962)
Gain	124,038
Less AEA	(12,300)
	111,738

Chargeable Gains Tax
 $\pounds 111,738 @ 20\% = \pounds 22,348$

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

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

Answer-to-Question-_8_

Companies which are large or very large are required to pay their Corporation Tax by installments.

A company is large if augmented profits exceed £1.5m which is proportioned for short a/c period.

Therefore for months = $\text{£}1.5/2 = \text{£}750,000$

Six months to 31 March 2023

Augmented Profits

TTP	£780,000
Dividend Income	£ 50,000
	£830,000

this exceeds £750,000 - so Broxz Ltd is a large company and is required to pay Corporation Tax by installments.

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

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

Answer-to-Question- 9_

Mocowe Ltd

YE 31 March 2023

Trading Profit £1m

Chargeable Gain £200,000

Usually makes Property income and non trading relationship income each year

UK Property loss of (£50,000)

UK Property losses can be used in the current year against total profits, this is automatic and no claim is needed. It can't be carried back. It can be carried forward against total profits, as a flexible loss. Any amount but subject to restriction. Claim has to be made 2 years from end of future period.

The restriction for the carried forward loss is the lower of:

The carried forward unrelieved losses and
The deductions allowance plus 50% x (unrelieved profits - deductions allowance)

The deductions allowance = £5m for a single company with a 12 month a/c period (this is reduced for short a/c periods).

The company must specify the amount of its deductions allowance in its corporation tax return and that means that up to £5m of b/f losses can be used without restriction.

Non-trading loan relationship deficit (£80,000)

This can be set against total profits in the loss-making accounting period or carried back 12 months and set against non-trading profits (LR).

These claims can be done in any order and can be for any amount they are not all or nothing claims.

Unused non-trading (LR) deficits subject to restriction are carried forward and set against future total profits. The amounts to be included on the Corporation Tax computation are calculated on the accruals basis in accordance with generally accepted accounting principles.

Total profits refers to all income and gains before charitable donations.

Current year and carry back claims need to be 2 years from end of loss making period. For carry forward claims - claim must be 2 years from the end of the future period.

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

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

Answer-to-Question-_10_

Incorporated 1 January 2021

1 February 2021 to 31 March 2021; acquisition of source
income; 2 months

1 April 2021 to 31 March 2022; from company started to trade
for 12 months

1 April 2022 to 30th April 2022; 1 month

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

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

Answer-to-Question-_11_

Tax Adjusted Profits

30 June 2022

	£
£	
Tax adjusted profits after Capital Allowances	
1,840,000	
Legal fees for the issue of Share Capital	13,000
Interest payable on loan to buy a machine	(160)
Less Qualifying Charitable Donation	(20,000)
TTP = £1,832,840	

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

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

Answer-to-Question-_12_

HMRC opened enquiry on the return ended 31 March 2022

No.1

HMRC can open an enquiry from 12 months from the actual filing date if filed on time. This would be 12 months from 31 March 2021, so therefore only until 31 March 2022.

No.2

This can be extended if HMRC make a discovery that income which ought to have been assessed has not yet been assessed. HMRC have the right to raise discovery assessments if the loss of tax was brought about carelessly or deliberately by the company or HMRC have not been provided with sufficient information to allow them to make a correct assessment of the company's profits.

The period for discovery assessment

General Rule = 4 years from the end of the AP

Carelessness = 6 years from the end of the AP

Deliberate action = 20 years from the end of the AP

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

CIOT - ATT

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

Dairy Farmer

Requirement 1

6 months period

Workings

£

£

Net Profit

43,500

Add back disallowable expenditure

Depreciation

17,000.00

Loss on disposal of fixed asset

16,000.00

Wages and Contractors (£15,000 less £14,240)

760.00

Only 4 x statutory redundancy payments allowed on cessation
of trade)

Premises Costs

Farmhouse Costs £6,760 - disallow 40%

2,704.00

Farm Cottage £4,640 - disallow 85%

3,944.00

Rental of Farm buildings

Motor Expenses

Joseph's car £6,250 - disallow 25% for private use

1,562.50

Other vehicle costs - assuming not relating to Joseph's car

Parking and speeding fines - disallow

600.00

Repairs

Repainting farmhouse - £3,470 - disallow 40%

1,388.00

Repairs to farm buildings - £2,680 - disallow Cap Exp

2,680.00

Administrative exp - £12,500 - disallow waterproof coat

400.00

Legal & Professional fees - disallow legal fees of £1500 re

lease 1,500.00

Selling price of goods taken for own use

200.00

48,738.50

Less income not taxed as trading income:

Profits on disposal of Fixed Assets

(183,000.00)

For the Herd basis election where 20% or more of the herd
is sold without replacement

the profit or loss is excluded from trading profits.

Less Capital Allowances

on plant & machinery

(50,300)

Tax adjusted loss

(£90,762.00)

Capital Allowances workings

		MP 18%
Private Car 6%	CA's	
WDV bal b/f 1 Jan 2022		5,600
4,400		
Additions:		
March 2022		
Trailer		6,000
Disposals		(54,000)
Disposals		
Car (MV)		
(8,000)		
Trailer		(5,200)
MP		(47,600)
47,600		
Private use		
(3,600) x 75%	2,700	
Total CA Claim		
50,300		

Requirement 2 (a)

Assuming Tax-adjusted Trading loss for the 6 months ending was (£50,000)

Terminal Loss Relief Workings

Loss of final year 2022 / 2023

Loss = (£50,000) for 6 months

6 April 2022 to date of cessation of 30 June 2022

$(£50,000) / 6 * 3 = (£25,000)$

Loss of proceeding tax year 2021 / 2022

12 months before cessation to 5 April 2022

1 July 2021 to 5 April 2022

$(£50,000) / 6 \text{ months} * 3 \text{ months} = (£25,000)$

Income YE 31 December 2021 = £10,800

$£10,800 / 12 \text{ months} * 6 = £5,400$

Total = (£8,800)

Loss of final year = (£33,800)

Add overlap relief (£16,000)

Loss of final tax year = (£49,800)

Requirement 2 (b)

YE 21/22	YE 22/23	YE 19/20	YE 20/21
Trade Profit 10,800	-	32,600	17,900
Employment Income 14,000	36,000	25,000	28,000
Terminal loss relief (10,800)		(21,100)	(17,900)

Net Income		36,500	28,000
14,000	36,000		

Three years before final tax year on LIFO. The loss can be set against Trading profits. The claim has to be made four years from end of the tax year of cessation.

Loss memo

Terminal Loss relief (22/23)	(£49,800)
2021/22	£10,800
2020/21	£17,900
2019/20	£21,100

-

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

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

Answer-to-Question-_14_

Elish

The disposal of the offices which Elish bought personally would be eligible Business Asset Disposal Relief (BADR)

This would be an associated disposal.

Associated disposals where rent was paid for the use of the asset restricts the availability of the BADR.

No rent = full relief.

Full commercial relief = no relief.

In this case where rent was paid below the commercial rates, some relief is available taking into account that it was paid at 75% of market value.

BADR is only available in respect of gains up to lifetime limit of £1m.

It will be taxed at 10%. The gains are treated as using any unused basic rate band in priority to other gains.

The claim must be made by the first anniversary of 31 January following the tax year in which the disposal takes place.

Li & Sam

As these never worked for the company they would make a claim for investors relief on gains in respect of qualifying shares will be subject to tax at 10%.

The gains qualifying for relief are subject to a lifetime limit of £10m per individual.

Conditions

Shares must be in a trading company (or holding company of a trading company) and must be unlisted when they were issued.

Shares must be new ordinary shares subscribed for in cash on or after 17 March 2016.

The individual cannot usually be a director or employee of the company.

The shares must be held for three years.

The claim must be made by the first anniversary fo 31 January following the tax year in which the disposal takes place.

Rafael

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

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

Answer-to-Question-_15_

Requirement 2

Construction fo a new Factory completed in September 2023

Land bought in November 2022

Buildings and Structure Allowance

Where construction takes place on / after 29 October 2018 and the building is used for a non-residential purpose the following qualify for SBA.

New buildings and structures

Renovations / converison of an existing building.

It is calculated on qualifying expenditure by 3% per annum.

Qualifying expenditure includes contruction costs, land preparation costs and demolition costs but does not include the cost of the land (including legal fees and stamp duty land tax) nor the cost of planning permission.

What happens on sale:

SBA will be calculated on the qualifying expenditure x 3% x (number of months in accounting period before sale / 12).

Qualifying expenditure is always the original qualifying expenditure incurred by the first ever user of the business.

SBA gives tax relief for the original qualifying expenditure over 33.5 years.

In this case the costs of the demolition of the existing building of £8,000 and the construction of the new building of £160,000 will be qualifying expenditure.

It is calculated from the date the building is first brought into use or if later when cost incurred.

Requirement 3

Types of Shares

Ordinary Shares

Typically carry the right to vote , to be paid dividends and to receive surplus assets on winding up.

Preference Shares

Will have some sort of preference over ordinary shareholding such as rights to dividends over ordinary shares. Rights to prepayment of capital over ordinary share holders on winding up. Greater security on income and on capital.

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

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

Answer-to-Question-_16_

Requirement 1

Date
My address

Your address

Dear Sonja

Re: VAT registration

Thank you for your enquiry dated xxxx.

Please do find as follows the responses to your queries.

Will the business be part of the existing VAT registration and so be registered immediately for VAT? and

This will not be part of the existing VAT registration, unless an application is made for this to be part of a VAT group (if it fits the criteria to do so). A new VAT registration will need to be made.

The current VAT registration threshold is £85,000.00

There is two types of registration; Compulsory and Voluntary.

Compulsory registration can be broken down into the historic test and the future test. The historic test is carried out at the end of every calendar month, the business will need to look at the taxable supplies of the previous 12 months (never further back than the preceding 12 months). If the taxable supplies in this period exceed the threshold then

the business has an obligation to register.

HMRC must be notified within the next 30 days. The business will then be registered from and VAT is charged on supplies from the start of the following month.

This will include taxable supplies that are standard rated, reduced rate and zero-rated sales.

If it isn't registered immediately, what are the advantages and disadvantages of voluntary registering?

Voluntary VAT registration allows a business to register for VAT even if its taxable supplies do not exceed the VAT registration threshold. Voluntary registration is also available for intending traders who have not yet started to make taxable supplies but are intending to do so in the near future.

A person whose taxable supply is below the compulsory VAT registration threshold can apply to register voluntarily. Businesses may register voluntarily for a number of reasons.

The advantages being;

Credibility; for example some businesses will only deal with other VAT registered businesses.

To recover input VAT; as you may already be aware only VAT registered businesses are entitled to reclaim VAT on purchases.

To avoid late registration penalties, as HMRC charge penalties if businesses registered late for VAT.

The disadvantages being;

Output tax will be charge on all sales liable to VAT at the standard or reduced rate of VAT. This increases prices normally by 20% this may be a problem if members of the public cannot recover VAT for example.

VAT accounting; VAT registered businesses have to file VAT returns (this will usually be on a quarterly basis). This is an additional compliance burden.

Pre-registration input tax

This tax can be recovered when a business becomes VAT registered. Pre-registration input tax can be recovered on goods purchased in the previous four years and still held at registration or on services supplied in the previous six months.

In your case the input VAT on the solicitors fees will only be recoverable if supplied in the previous 6 months to registering for VAT. VAT on the cleaning products will only be recoverable if purchased in the previous four years to registration and for those still held at the point of registration i.e. this will not include those already used for personal use.

Advising on Tax Planning Arrangements

Members must not create, encourage or promote tax planning arrangements or structures that;

(i) set out to achieve results that are contrary to the clear intention of Parliament in enacting relevant legislation; and/or

(ii) are highly artificial or highly contrived and seek to exploit shortcomings within the relevant legislation.

I trust the above is clear but if you do have any questions please don't hesitate to contact me.

Thanking you

Tax Advisor
ABC Advisors

