THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

November 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Carlos has been trading as an unincorporated trader for many years, preparing accounts to 30 April. On 30 September 2022, he decided to retire. His taxable profits were as follows:

	£
Year ended 30 April 2020	31,000
Year ended 30 April 2021	29,000
Year ended 30 April 2022	27,000
Five months ended 30 September 2022	14,000

Overlap profits brought forward were £8,000.

Calculate the assessable profits for the final two tax years of trade. (3)

2. Alexia took over a café on 1 December 2021, running it as a sole trader. She had not previously been required to complete a tax return and she made significant profits in the first year of trade. In February 2023, she received a letter from HMRC and became a client of your firm. You advised HMRC of her self employment and calculated that her liability for 2021/22 was £10,000. The 2021/22 return was filed on 1 March 2023 and Alexia paid £10,000 to HMRC on the same date.

Explain any penalties payable by Alexia for late notification of chargeability. (3)

3. Sam and Marianne have been trading in partnership for many years running a children's nursery and preparing accounts to 31 December each year. Profits were shared 50:50 after 5% interest on capital of £150,000 for Sam. On 1 October 2022, they admitted Rana into the partnership. Profits were then shared 55:25:20 between Sam, Marianne and Rana, without any adjustment for interest or salaries.

The taxable trading profits for the year ended 31 December 2022 were £161,000 and for the year ended 31 December 2023 are estimated to be £180,000.

Calculate the profits allocated to each partner for the year ended 31 December 2022 and the assessable profit for Rana for 2022/23. (4)

4. Kit has traded for many years as a gardener, preparing accounts to 31 March each year. He files his own self-assessment tax return each year.

He received a notice to file his 2020/21 return on 6 April 2021. However due to being very busy in 2021 and 2022, he forgot to file the tax return. Once he realised his mistake, he rushed to file the 2020/21 return, which he did on 30 September 2022. The total tax liability for 2020/21 was £7,400. Kit had made two payments on account totalling £2,400 and paid the balance of £5,000 on 1 October 2022.

He has asked you to prepare his 2021/22 return and you realise that he could have claimed annual investment allowance on some gardening equipment purchased in 2020/21. The claim would reduce the total tax liability for 2020/21 to £5,300.

Kit is concerned that this may cause HMRC to question his return and wants to know how long they have to do so.

Explain the penalties that Kit might incur in respect of the late filing of his 2020/21 tax return and HMRC's powers to open an enquiry into his return. (4)

5. Takuto Ltd has previously prepared accounts to 31 July. In 2022, the company extended its period of account and prepared accounts for the 17 months ended 31 December 2022.

You are given the following information:

1) On 1 June 2022, the company agreed to buy a second-hand forklift truck for £14,000. Half the payment was due on 1 June 2022 and the balance on 30 November 2022.

2) On 15 July 2022, the company signed a hire purchase agreement to buy a new delivery truck for £25,000. A deposit was paid of £5,000 and the repayments of £500 per month started when the truck was delivered on 31 August 2022.

At 1 August 2021, the tax written down value of the general pool was £6,800 and of the special rate pool was £47,900.

Calculate the maximum capital allowances that can be claimed by Takuto Ltd for the 17 months ended 31 December 2022. (4)

6. Jactow Ltd makes woodworking tools and equipment. It has been trading for many years from its own factory. In June 2022, the factory was sold for sales proceeds of £500,000. Selling costs of £6,700 were also incurred. The factory had been bought by Jactow Ltd in December 1998 for £175,000 and an extension was added in June 2018 at a cost of £60,000.

Calculate the capital gain on the sale of the factory. (3)

7. Shelac Ltd manufactures wood products and prepares accounts to 30 September.

In 2023 it had the following expenses:

1) Interest on a loan to buy plant and machinery.
2) Interest on late paid Corporation Tax.
3) Interest on late paid PAYE.
4) Interest on a loan to buy a property which is rented to a third party.
5) Loan arrangement fees for the loan in 4) above.
6) Debt to employee written off.

Explain how each expense is treated for Corporation Tax purposes. (3)

8. Berlet Ltd, a manufacturing company, started building a new factory on 1 March 2023. The work will be completed on 30 November 2023 and the company will start using the building on 1 January 2024.

The construction costs include the following:

1) Purchase of the land.
2) Legal and planning consultant costs for the planning application.
3) Costs of levelling the ground prior to construction.
4) Installation of a plumbing and heating system.

Explain whether the above costs will qualify for structures and building allowance and the date from which the allowance can be claimed. (3)

9. Daphil Ltd, a consulting company, has been trading for many years preparing accounts to 31 March. In 2022 it changed its accounting period and prepared accounts for the 15-month period ended 30 June 2022.

Daphil Ltd paid all Corporation Tax due for the 15-month period ended 30 June 2022 on 1 March 2023. Daphil Ltd is not required to pay Corporation Tax in instalments.

State the filing date(s) for the returns covering the 15 months to 30 June 2022 and explain how any interest on the payment on 1 March 2023 is calculated. (3)

10. Meera trades as a florist from a shop. She bought a 35-year lease on 30 April 2008 for £75,000. On 30 April 2022, she sold the lease for £95,000. She had made no other gains or losses in the year and had no capital loss brought forward.

Calculate Meera's taxable gain for 2022/23. (3)

11. Tadej, a management consultant, sold a painting which was gifted by a client many years ago in settlement of his fees. The painting was sold at auction.

Frank, a carpenter, sold a small freehold workshop for a gain. A month earlier he purchased a 15-year lease on a larger workshop. He reinvested the whole of the proceeds of the original workshop and made a claim to avoid the gain becoming chargeable immediately.

Alice hires out vintage cars for weddings and other events. She sold some of her cars for a profit to a collector.

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

12. Matt, a sheep farmer, prepares accounts to 31 March each year. He had the following trading profits:

<u>Year ended 31 March</u>	£
2019	60,000
2020	48,000
2021	52,000
2022	47,000
2023	34,000

Explain why the trading profits allow a five-year averaging claim to be made, and calculate the averaged profit for 2018/19 to 2022/23. Explain how to deal with any increases or decreases in the tax liability for earlier years. (4)

PART II

Presentation skills – awarded for quality of presentation. (2 marks)

13. Gita is a sole trader who prepares accounts to 5 April each year. Robert, an ATT member, prepares Gita's self-assessment tax return each year. From 2020/21 onwards, Robert has used the cash basis to calculate Gita's taxable trading profits.

Gita provided the following amounts about her trade for the year ended 5 April 2023:

	Notes	£
Cash sales made during year		165,000
Credit sales made during year	1)	9,000
Proceeds from sale of computer	2)	800
Bank interest received on business account		600
Purchase of materials		39,000
Administration expenses	3)	15,000
Gita's drawings		60,000
Train tickets to attend client meetings		4,700

All expenditure was paid for during the year.

Notes

1) Of the credit sales made, Gita was still owed £700 at 5 April 2023. She had not made any credit sales in previous years.

2) Gita had bought the computer for £2,000 in May 2020 and sold it for cash. She had used it 60% for private use.

3) Administration expenses include £3,000 for gifts of food hampers to 30 customers. The hampers were labelled with Gita's name and business logo.

Gita's query about purchase and use of a car

Gita uses the train for all travel for environmental reasons. However, she wants to understand the trading deductions if she had bought a car on 6 April 2022 and used this during 2022/23 instead. She would have chosen a new car with CO_2 emissions of 40g/km and she would have incurred running costs. Gita thinks she would have driven 12,000 business miles and 3,000 miles for personal journeys if she had bought the car.

Gita's mortgage

Gita has asked Robert to complete her return for 2022/23 urgently as she is arranging a mortgage for her house. Gita needs a letter of reference from Robert for her bank, stating the taxable income in her tax returns for the last three tax years including 2022/23.

Gita has consented in writing to Robert releasing the information. She and Robert have agreed a fee to be charged to Gita for completing this letter.

Continued

Continuation

Requirements:

1) Explain the conditions which must have been met in:

a) 2020/21 and;
b) 2021/22

to allow Gita to continue to use the cash basis in 2022/23. (2)

2) Calculate Gita's taxable trading profits under the cash basis for the year ended 5 April 2023, ignoring Gita's query about a car. (5)

3) Calculate Gita's National Insurance Contributions (NIC) for 2022/23, ignoring Gita's query about a car. (3)

4) Explain, with supporting calculations where possible, the trading deductions in 2022/23 which would have been available for the car, including alternative treatments. (4)

5) Explain further ethical steps for Robert to take regarding the provision of the requested information to Gita's bank. (4)

Ignore VAT.

Total (18)

14. The Anbeca Partnership is VAT-registered and sells goods which are standard-rated. Amounts are stated exclusive of VAT, where relevant.

The partners Anton, Bembe and Camilo had traded together for many years, sharing income and capital profits: 30% Anton, 30% Bembe, and 40% Camilo.

On 30 September 2022 Camilo left the partnership and a partnership building was transferred to him. The building has increased in value since purchase.

Anton and Bembe have continued to trade although sales reduced after Camilo left the partnership. To try to improve the quality of goods and increase sales, the partners sold an old machine and bought a new one.

The old machine had cost £40,000. It had a net book value of £12,000 when sold on 25 January 2023 for £8,000.

The new machine cost £30,000. The partners placed the order for the new machine on 1 December 2022, paying a 50% deposit. They paid the remaining 50% on delivery of the machine on 10 January 2023, which was also the invoice date.

For the quarter ended 31 March 2023, Anton has already calculated recoverable input VAT of £500 for the partnership. He has not yet included any VAT on the machine purchase or on the following expenditure in the quarter:

1) Raw materials, advertised as costing £5,000 but for which the partnership received a 10% prompt payment discount.

2) A restaurant meal for UK customers, costing £300.

Sales have continued to fall and were £20,000 for the quarter ended 30 September 2023. Anton wants the partnership to deregister for VAT, if sales continue to fall.

Requirements:

1) Explain the capital gains implications of the transfer of the building to Camilo. (3)

2) Show the double entries recording the disposal of the old machine. Ignore VAT for this part. (4)

3) Calculate the total input tax recoverable for the quarter ended 31 March 2023. (3)

4) Explain whether the partnership can deregister for VAT and the effect of doing so on the partnership's final VAT return. (2)

Total (12)

15. Hazmol Ltd stopped trading on 31 January 2023, selling all of its assets to Tafanda Ltd. The two companies used a Heads of Agreement document as part of the sale.

Period ended 31 January 2023

Hazmol Ltd had an accounting loss of £450,000 for the four months ended 31 January 2023. This is after deduction of the following amounts:

	£
Depreciation	26,000
Loss on disposal of plant and machinery	10,000
Redundancy costs (including £18,000 statutory payment)	60,000
Fine for breaching fire safety regulations	15,000
Debt collection agency costs	7,000
Write-off of bad debts	4,000

Hazmol Ltd sold all its plant and machinery on 31 January 2023 to Tafanda Ltd for £300,000. Each item was sold for less than cost.

	Proceeds £
Various general pool machinery	185,000
Car with zero emissions	5,000
Solar panels	30,000
Sawing machine	80,000
	300,000

Each item had been bought new, with an expected life of less than 10 years. The only asset bought after 31 March 2021 was the sawing machine, on which the super-deduction was claimed.

At 1 October 2022, the tax written down value on the general pool was £245,000 and on the special rate pool was £Nil.

For the period ended 31 January 2023, Hazmol Ltd had no gains and its only other income was bank interest of £4,000.

Previous accounting periods

Hazmol Ltd's trading profits for previous accounting periods were:

Year ended	Trading Profit £
30 September 2022	87,000
30 September 2021	110,000
30 September 2020	240,000
30 September 2019	300,000

In each of these years, Hazmol Ltd had bank interest income of £12,000. On 30 June each year Hazmol Ltd made a qualifying charitable donation of £10,000.

Requirements:

1) **Explain the purpose of the Heads of Agreement document and examples of the legally binding items it may contain, if Hazmol Ltd and Tafanda Ltd agree.** (3)

2) **Calculate Hazmol Ltd's trading loss for the period ended 31 January 2023, showing your treatment of each deduction and disposal.** (7)

3) **Explain the claims which maximise relief for the trading loss and calculate the resulting taxable total profits for all periods from 1 October 2018 after loss relief.** (5)

Ignore VAT.

Total (15)

16. Jacob

Jacob has owned 100% of the shares in Lionny Ltd, a trading company, since 2010. He has been a director of the company throughout that time.

Jacob personally owned a storage building which was used rent-free by Lionny Ltd in its trade from 2010. On 18 February 2023, Jacob sold the building to his daughter Sasha for £160,000 when the market value was £270,000. Jacob had bought the building for £90,000 in 2010 and had spent £15,000 repairing the roof in 2018.

On 1 March 2023 Jacob sold 10,000 shares in Tigret plc, a trading company, for £85,000 and incurred broker fees of £200.

Jacob bought 30,000 Tigret plc shares for £300,000 in March 2015. He bought a further 12,000 shares for £96,000 on 28 March 2023. Jacob does not work for Tigret plc, and his shareholdings never exceed 0.01% of the company's issued share capital.

In 2022/23 Jacob has taxable income of £29,430 after deduction of the personal allowance.

Sasha

Sasha works as a lawyer. She likes wearing vintage clothes and for many years has bought such garments online and from charity shops. They usually need repairing before use, which Sasha did at home until recently. She sometimes sold items she no longer liked online.

In April 2023, Sasha moved her sewing machine and many garments to the storage building, where she now does the repair work. Her online purchases are now also delivered there. Sasha owns several hundred garments and has increased her sales of repaired items since the move.

From April 2023 Sasha has attended monthly fashion festivals across the UK, buying and selling on average 10 garments at each. She also advertises rare garments online soon after buying them at festivals, hoping to find specialist buyers. This way she has so far sold six rare garments, for at least double the amount she paid in each case.

Requirements:

1) Explain why business asset disposal relief is not available on Jacob's disposals of the storage building and the Tigret plc shares in 2022/23. (2)

2) Calculate Jacob's Capital Gains Tax for 2022/23, after all beneficial reliefs. Show the amount of any reliefs. (6)

3) Referring to information in the scenario, explain the badges of trade which indicate that Sasha is trading in vintage clothes in 2023/24. (5)

Total (13)