

CIOT - ATT

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

For the tax year 21/22 the assessable profits are £29,000.
For the tax year 22/23 The assessable profits are shown
below:

27,000	+ 14,000	- 8,000	= 33,000
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This is because of closing year rules.

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

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

Answer-to-Question-2

A taxpayer becomes late to the notification of chargeability if it is later than 6 months after the end of the tax year (October 5). There is then a certain percentage of missed revenue as a penalty. In Alexia's case, it was not deliberate or concealed but she did need prompting. This means, as it was less than 12 months late, there will be a minimum penalty of 10%, with a maximum of 30%. This is a minimum of £1,000 and a maximum of £3,000.

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

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

Answer-to-Question-_3_

	Total	Sam	Marianne	Rana	
Y/e 31 Dec 2022	161,000				
1.01.22 to 1.10.22	(161,000 * 9/12) = 120,750				
Less (capital interest)	(5,625)	5,625			
Balance (50:50)	115,125	57,562	57,563		
1.10.22 to 31.12.22	40,250				
Less (capital interest)	1,875	1,875			
Balance (55:25:20)	38,375	21,106	9,594	7,475	
Total		86,168	67,157	7,475	

The profits allocated to Sam are £86,168. To Marianne are £67,157 and to Rana 7,475.

Rana will be assessed on £7,475 in the 22/23 tax year.

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

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

Answer-to-Question- _4_

The date the 20/21 tax return should have been submitted, assuming we do an electronic return, is 31st January 2022. There is an initial penalty of £100 for late returns. The return is 9 months late. As this is more than 3 months late there will be daily penalties of £10 a day for 90 days totalling £900. There will also be a penalty of either £300 or 5% of the tax liability, whichever is greater. In this case, Kit's liability is £7,400. This means a penalty of £370 will be issued. This means Kit's total penalties for the late return will be £1,370. Due to the return being filed after the normal return date, HMRC have until the quarter day following the first anniversary of the filing date. In Kit's case, this is the 31st of October 2023.

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

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

Answer-to-Question-_5_

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

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

Answer-to-Question-_6_

Sale proceeds	500,000		
Less: (selling costs)	(6,700)		
Less: (base cost)	(296,031)		
Less: (enhancement)	(60,000)		
Capital gain	137,269		

The capital gain is £137,269

Indexation workings

175,000	* ((278.1 - 164.4) / 164.4)	= 121,031	
175,000	+ 121,031	= 296,031	

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

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

Answer-to-Question-_7_

- 1) Allowable
- 2) Not allowable
- 3) Not allowable
- 4) Not allowable
- 5) Allowable
- 6) Allowable

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

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

Answer-to-Question-_8_

Cost 2,3 and 4 will qualify for structures and buildings allowance but not cost 1.

As the date of the building being in use is later than when the expenditure is incurred, the SBA will be given from the 1st of January 2024.

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

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

Answer-to-Question-9_

Daphil Ltd had to file the corporation tax returns by the 30 June 2023 (12 months after period end). As this is a longer accounting period there will be 2 returns but both are due on this date.

The interest rate of laye payments is 3.5%. This is used when calculating interest of a payment.

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

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

Answer-to-Question-_10_

30 April 2008	35 year lease	91.981	
30 April 2022	21 year lease	74.635	

Sale proceeds	95,000		
Less: cost			
75,000 * (74.635/91.981)	(60,856)		
Gain	34,144		

Chargeable gain	34,144		
Less: annual exemption	(12,300)		
Taxable gain	21,844		

Meera's taxable gain is £21,844.

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

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

Answer-to-Question-_11_

There will be no base cost for Tadej.

The gain will be rolled over and the base cost of the workshop will be lowered. When the workshop is sold or not used anymore the gain will then reinstate.

Alice will have gains on the cars sold.

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

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

Answer-to-Question-_12_

60,000	+48,000	+52,000	+47,000	= 207,000	
207,000	/4	= 51,750			

34,000	/ 51,750	= 66%	
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As 66% is lower than 75% five year averaging is possible.

60,000	+	+	+ 47,000	+ 34,000	= 241,000
	48,000	52,000			
241,000	/ 5	=			
		48,200			

The average profit for 2018/19 to 2022/23 is £48,200.

If there is any tax increase or decrease, it is adjusted in the 2022/23 balancing payment and has no effect on the payments on account for 23/24.

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

CIOT - ATT

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

1) Gita's total business receipts must not have exceeded £150,000 for 2020/21 tax year allowing her to elect for the cash basis.

Gita's total business receipts must not have exceeded £300,000 for the 2021/22 tax year, allowing her to stay on the cash basis.

2)

Trading income	173,300		
Less: purchase of materials	(39,000)		
Administrativ e expenses	(15,000)		
Train tickets to client meetings	(4,700)		
Trading profit	114,600		

Gita has trading profit of £114,600 with bank interest of £600.

3)

Class 2 NICs are £3.15 a week

3.15	*52	= 163.80	
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Class 4:

50,270	- 11,908	= 38,362	
38,362	* 10.25%	= 3,932	
114,600	- 50,270	= 64,330	
64,330	@ 3.25%	= 2,091	

163.80	+ 2,091	= 2,255	
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Gita's National insurance contributions for 22/23 are £2,255.

4)

10,000	* 45p	= 4,500	
2,000	* 25p	= 500	

Gita would have been able to claim £5,000 as an expense of business mileage. This would be more than the £4,700 for the train.

The other option is capital allowances.

As the car Gita purchased has CO2 levels of 40g/km, this is eligible for the general pool. This means every year, Gita can claim back 18% of the purchase price. This cannot happen if mileage is claimed for.

5)

Robert should not share the information with anyone other than the client and the mortgage broker at the bank during this transaction. He should have, in writing from Gita, where and who to send it to. Robert must make sure the letter had reached the correct place and has demonstrated the correct purpose before charging the fee. Robert must be certain the information he is releasing is fully true and

make sure the client does not see it before it gets to the bank incase of tampering.

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

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

Answer-to-Question-_14_

1)

Camilo already owns 40% of the building. The other 60% is split evenly between Anton and Bembe. This means Anton and Bembe will have a capital gain of the increase in value since purchase. Camilo will not have a gain on his 40% and the purchase cost will still remain the same. However, on the other 60%, the cost for Camilo will be market value at the transfer. This is because Anton and Bembe already have a capital gain for the increase in value. This could be changed by gift relief.

2)

Dr Disposals 40,000
Cr Fixed asset cost 40,000

Dr Provision for depreciation 28,000
Cr Disposals 28,000

Dr Bank 8,000
Cr Disposals 8,000

3)

30,000	* 20%	= 6,000	
5,000	* 20%	= 1,000	
300	* 20%	= 60	

	Total	= 7,060	
7,060	+ 500	= 7,560	

The total input tax recoverable for the quarter ended 31 March 2023 is £7,560.

4)

The partnership can register for VAT from the quarter ended September 30th onwards as long as sales do not increase. This will put them below the deregistration threshold of £83,000, for taxable supplies in the next 12 months. Any VAT goods still at hand must be accounted for the final VAT return as long as the VAT is more than £1,000.

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

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

Answer-to-Question- 15

1)

Heads of agreement have two main purposes. The first, is to document what both parties have agreed to before they enter into any contractual relationship. The second, is to show that both parties had intent to be bound by the terms set out in the agreement.

It may contain the length of the agreement, the fundamental purpose of the agreement, the identities of both parties and any confidentiality agreements.

2)

Accounting loss	(450,000)		
Add backs:			
Depreciation	26,000		
Loss on plant and machinery	10,000		
Fine for breaching fire safety regulations	15,000		
Write-off of bad debts	4,000		
Capital allowances *	(60,000)		
Trading loss	(464,000)		

Workings

*

245,000	- 185,000	= 60,000	
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3)

As this is a loss in the last year of trading, it can be treated as a terminal loss. This will maximise relief as it allows the loss to be carried back to the 36 months ending immediately before the loss making period rather than the usual 12. This means the trading loss can be carried back against total profits until 30 September 2020.

Y/e	Trading profit	Other income	QCD	Terminal loss relief used	Terminal loss relief c/f
31 January 2023	(464,000)	4,000	0	4,000	(462,000)
30 September 2022	87,000	12,000	10,000	89,000	(373,000)
30 September 2021	110,000	12,000	10,000	112,000	(261,000)
30 September 2020	240,000	12,000	10,000	242,000	(19,000)

This leaves 19,000 of terminal loss relief unused.
Each year's taxable total profits are shown below:

Y/e	Taxable total profits		
31 January 2023	0		

30 September 2022	0		
30 September 2021	0		
30 September 2020	0		
30 September 2019	300,000		

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

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

Answer-to-Question-_16_

1)

BADR is not available on Jacob's disposal of the storage building because he sold it at under market value to a connected person.

BADR is not available on Jacob's disposal of the Tigret plc shares because Tigret was not his personal trading company (owning more than 5% of the shares).

2)

For the sale of the storage building, we can claim gift relief.

Sale proceeds (MV)	270,000		
Less: Cost	(90,000)		
Gain before relief	190,000		
Less: Gift relief	(120,000)		
Gain	70,000		

We do not include the repair of the roof in the cost as this is not capital expenditure and would have been deducted at the time.

We have claimed for £120,000 gift relief here which will lower Sasha's base cost for future sales.

Sale proceeds	85,000		
Less: Broker fees	(200)		

Less: cost	(80,000)		
Gain	4,800		

As Jacob purchased shares in the 30 days following his sale, we use the cost of those (as shown below) for the cost of the sold shares.

37,700	- 29,430	= 8,270	
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Jacob has £8,270 left of his basic rate band

4,800	+ 70,000	= 74,800	
Chargeable gain	74,800		
Less: (annual exemption)	(12,300)		
Taxable gains	62,500		
8,270	@ 10%	= 827	
54,230	@ 20%	= 10,846	
827	+ 10,846	= 11,673	

Jacob has £11,673 of capital gains tax to pay.

Workings

*

Shares	Cost		
12,000	96,000	March 28 2023	
10,000	80,000	March 1 2023	

3)

Organisation is a badge of trade which indicates Sasha is

trading. This is because she has purchased a storage building and makes her repairs, sells and buys things from and to.

The next badge of trade that indicates Sasha is trading is alterations/modifications to sell an asset. She does not sell the asset without making repairs to them to increase the value. This indicates trade.

The next badge is Profit-seeking motive. Sasha is now looking to buy rare garments to sell online. All the ones sold so far have been for at least double. This is a clear profit-seeking motive.

Repetition is the next badge of trade that indicates Sasha is trading. This is because she is monthly going to festivals to find rare garments and now owns several hundred garments.

The final badge of trade is Gap. This is the length of time between ownership and sale. The rare garments are listed soon after a festival is over. Sasha does not want to get any use out of them but is instantly looking to sell. This also indicates trade.