THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

May 2025

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 of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Alex owns a furniture shop in the UK, which he has operated for many years as a sole trader. Alex prepares accounts to 31 March each year using the accruals method.

The draft accounts for the year ended 31 March 2025 are as follows:

	£	£
Sales		466,000
Cost of sales		(285,000)
Gross profit		181,000
Less expenses:		
Premises costs	34,800	
Wages	65,000	
Motor expenses	17,000	
Legal and accountancy fees	6,700	
Administrative expenses	12,000	
Depreciation	6,400	
Net profit		141,900
		39,100

You are given the following information:

1) Cost of sales includes a purchase of an item of furniture costing £1,700. Alex took the furniture home and has made no other entry in the accounts. The sales markup would have been 50%.

2) Wages are:

	£
Alice	25,000
Sue	20,000
Alex	20,000
	65,000

Alex has two employees who are both sales assistants and both 30 years old. Alice works five days per week and is unconnected to Alex. Sue is Alex's daughter and works one day per week.

3) Motor expenses are:

	Notes	£
Car running costs	(a)	6,800
Van leasing	(b)	6,300
Van running costs	(b)	3,900
		17,000

(a) The costs to run Alex's car have been included in the draft accounts. In 2023/24, Alex claimed mileage costs for the business use of the same car at HMRC approved rates. His mileage for 2024/25 was:

	Number of miles
Home to shop	5,760
Travel to suppliers	10,300
Travel to customers	3,140
	19,200

Continued

(b) Alex also leases a van which is used 25% for private purposes. The CO_2 emissions of the van are 180 g/km.

4) Legal and accountancy fees are:

	£
Accountancy	2,500
Penalties for late paid tax	800
Legal for renewal of 21-year lease	2,400
Legal re collection of trade debts	1,000
	6,700

5) Administrative expenses include £1,412 for private health care costs for Alex's two employees and £934 for gifts of wine to 50 customers at Christmas. The bottle labels advertise Alex's business. All National Insurance relating to employees has been correctly dealt with in the accounts.

6) Alex spends 60 hours a month working from home. He estimates that 20% of the area of the house is used for business purposes and 15% of the heat, light and water costs. In 2023/24, he claimed the business use percentage of his household costs.

His household costs for the year ended 31 March 2025 were as follows:

	£
Council tax	2,400
Insurance	350
Heat, light and water	1,300
	4,050

7) During the year, Alex spent £8,000 on second hand office equipment. The tax written down values as at 1 April 2024 were £4,800 for the general pool and £16,000 for the special rate pool.

8) Alex had no other taxable income or outgoings in 2024/25.

Requirements:

1) Calculate Alex's tax adjusted profits and Income Tax payable for 2024/25. Briefly explain your treatment of items 1) to 6) above. Ignore VAT. (15)

2) Calculate the total National Insurance contributions payable by Alex for 2024/25, showing the effect of any potential claims available to him. (3)

Total (18)

2. You are a tax adviser in practice and Arefa is your client.

Arefa has operated a shop for many years selling clothes from a three-floor building on the high street of Anytown. The first two floors are used by the shop and the top floor is rented out as a residential flat. The building was bought in June 2000 for £120,000 allocated equally across the floors. The first two floors were immediately used for the business. The top floor was left empty. £60,000 was spent converting the top floor to a flat in December 2005.

On 1 June 2024, she sold the whole building in Anytown for £500,000: £325,000 for the shop and £175,000 for the flat.

Arefa is looking to operate a shop in Busytown. She has two options, one of which she will take up within the next few months:

1) The grant of a sixty-year lease on the Busytown shop at a cost of £250,000.

2) Purchase of the Busytown shop at a cost of £275,000.

Continued

Arefa wants to know the tax implications of each option both on her current tax position and if she keeps the shop for 12 years until she retires.

Arefa's tax adjusted trading profits for 2024/25 were £67,000. She had no other taxable income or outgoings in the tax year and no taxable losses brought forward. She made no other capital disposals during 2024/25.

Arefa's friend, Sara, has recommended a consultant to her. The consultant has told Sara that he has created a generic tax planning scheme under which his clients can take a number of unusual steps that allow them to claim additional tax relief.

You have read the promotional material and think that the scheme would be challenged by HMRC. Arefa has asked if the claim can be included in her 2024/25 tax return.

Requirements:

1) **Calculate the capital gain, before any reliefs, on the disposal of the building in Anytown.** (2)

2) **Explain any reliefs Arefa can claim under the options relating to the Busytown shop. Calculations are NOT required.** (6)

3) **Calculate the Capital Gains Tax payable by Arefa for 2024/25 assuming she selects option 2 and makes any beneficial claims.** (4)

4) **Explain the guidance given to you in Professional Conduct in Relation to Tax for the proposed claim for tax relief under the scheme.** (3)

Total (15)

3. Lucia is employed as an interior design consultant by LCS Designs Ltd. She is the sole director and shareholder of the company.

Lucia moved house in January 2024 and, between January and March, sold a lot of her furniture and furnishings on an online marketplace. Total sales were £5,000 and Lucia made a profit of £2,600.

From 10 April 2024, Lucia bought more furnishings at second hand shops, auctions and from local artists. She also built a website, so she could sell direct to customers. She arranged a small overdraft facility with her bank to help with her cash flow.

From May 2024, Lucia started to make videos which she uploaded to social media sites showing how to decorate rooms, using the items for sale on her website and the online market place. Her first sale was on 1 June 2024.

Lucia has not previously been required to complete a self-assessment tax return.

Lucia has contacted you with the following concerns:

1) She has read that, because she sold so many items on the online marketplace, her information will be passed to HMRC. She claims that the sales are really a hobby as the turnover per month is only around £2,000 with a margin on sales of 25%.

2) Whether and, if so, when, she will have to add VAT to her selling prices as her monthly sales are increasing. LCS Designs Ltd is already VAT registered and she wonders if that has any impact on the recent online furnishing sales.

.

Continued

3) Regarding self-assessment:

   (a) whether she will now have to file personal tax returns, and
   (b) when her tax and National Insurance liabilities will be due for 2024/25 and 2025/26.

4) How much of the following costs that were incurred before she made her first sale will she be able to treat as allowable costs:

   (a) On 1 January 2024, Lucia started to lease a storage unit at £150 per month. Initially, she used the unit to store her furniture, when she had sold everything, she used the unit to store the stock that she had bought.

   (b) On 20 April 2024, Lucia hired a van to collect furnishings that she had bought from an auction both to sell and for her home. The van hire cost £320. 60% of the stock was delivered to the storage unit and 40% to her home.

   (c) In the first week of May, Lucia had meetings with various artists whose work she wanted to sell. As she has no office, the meetings took place in cafés. The cost of these meetings was £260.

   (d) In the last week of May, Lucia paid for a social media promotion for her website. The cost was £289.

Requirements:

1) Explain whether and, if so, from when, the income from Lucia's online sales will be taxable for Income Tax. (5)

2) Explain when Lucia may have to start charging VAT on her online sales. (3)

3) Explain when Lucia will have to notify HMRC of her new business for Income Tax purposes, the filing requirements and by when the tax liabilities for 2024/25 should be paid. (5)

4) Calculate the amount of costs in item 4 that Lucia will be able to treat as allowable expenses. (3)

Total (16)

4. Latun Ltd is a trading company which prepared accounts for the 15-month period ended 31 March 2025.

<u>Sale of shares</u>
Latun Ltd sold 3,000 shares in Miko plc for £27,000 on 1 March 2025. Latun Ltd had bought 10,000 shares in Miko plc for £30,000 on 1 January 2010. There was a 1-for-4 rights issue on 1 September 2019 and Latun Ltd had taken up its full rights for £6 per share. Latun Ltd's shareholding in Miko plc was always less than 1%.

<u>Trading profits</u>
Latun Ltd's tax adjusted trading profits before allowances for the 15-month period are £2,100,000. The company did not claim any capital allowances on plant and machinery for the period.
However, the company claims Structures and Buildings Allowances on its head office. The company operated from the office from April 2021 when it purchased the office new from a property developer for £2.5 million. Of this, £500,000 related to the land. On 30 November 2024 the company moved to rented premises and the office building has remained empty.

<u>Other income</u>
Latun Ltd receives interest from cash held in a bank account on 31 December each year. The amount received on 31 December 2024 was £14,000. The amount accrued at 31 March 2025 was £3,600.

Continued

Continuation

Latun Ltd received dividend income from Miko plc of:

	£
1 December 2023	7,000
1 December 2024	10,000
1 December 2025	4,000

None of the other income has been included in the calculation of trading profits.

Donations
Latun Ltd donated £30,000 to a UK political party in May 2024 and £8,000 to a registered UK charity each December. These amounts were not deducted in the calculation of tax adjusted trading profits.

Prior year information
For the year ended 31 December 2023 Latun Ltd had taxable total profits of £1,450,000. It had a capital loss for the year of £6,000 which has been carried forward at 1 January 2024.

Requirements:

1) Calculate the chargeable gain on the sale of the Miko plc shares. (4)

2) Calculate Latun Ltd's Corporation Tax payable for the 15-month period ended 31 March 2025. Ignore VAT. (9)

3) Explain, stating due dates, when Latun Ltd must:

(a) pay Corporation Tax; and
(b) file Corporation Tax returns.

for the 15-month period ended 31 March 2025. (6)

Total (19)

5. Wendic Ltd is a VAT-registered trading company. It prepared accounts for the nine-month period ended 30 September 2024. It submits quarterly VAT returns.

Purchases

Wendic Ltd made the following purchases of new plant and machinery during the period. The purchase prices stated are inclusive of VAT at the standard rate:

	Purchase price £	Transaction details
Car with CO_2 emissions 200g/km	30,000	Paid for when collected from showroom on 1 February 2024
Hot water system, estimated useful life of 20 years	600,000	Ordered on 1 March 2024 Paid for on 31 March 2024 Installed and invoiced on 18 April 2024
New packaging machine	840,000	£210,000 paid on order on 28 May 2024 Delivered on 30 June 2024 Invoiced on 4 July 2024 £630,000 paid on 10 July 2024

All items of plant and machinery are used in the trade of the company, although the car collected on 1 February 2024 was used 30% for private purposes by a director.

Continued

Continuation

<u>Disposals</u>
Wendic Ltd sold solar panels on 1 September 2024 for £20,000. The panels had cost the company £100,000 when purchased on 1 May 2021. Wendic Ltd had claimed the 50% first year allowance (FYA) on the purchase of the panels.

Wendic Ltd sold a zero-emissions car for £11,000 on 29 September 2024. The car had cost £25,000 when purchased new on 1 July 2019.

All amounts for the solar panels and the zero-emissions car are stated exclusive of VAT.
At 1 January 2024, the tax written down value on the general pool was £68,000 and on the special rate pool was £43,000.

<u>Building</u>
On 31 December 2024 Wendic Ltd sold a building. Throughout the company's ownership, it had used three of the four floors of the building in its trade. It had rented out the remaining floor.
Between October 2024 and December 2024 Wendic Ltd incurred the following costs:

1) letting agent's fees;
2) interest on the loan used to buy the building;
3) replacement window for one broken by an employee of Wendic Ltd when moving plant;
4) cost of advertising the building for sale;
5) legal fees on the sale of the building; and
6) building insurance for the entire building.

Requirements:

1) **Explain the tax points for the purchases of the plant and machinery and why it is important to determine the time of supply for Wendic Ltd.** (4)

2) **Calculate Wendic Ltd's capital allowances for the nine-month period ended 30 September 2024, showing clearly your treatment of each purchase and disposal.** (7)

3) **Explain whether the costs incurred on the sale of the building will be deductible for chargeable gains or against trading income, when calculating Wendic Ltd's taxable total profits for the year ended 30 September 2025.** (4)

Total (15)

6. Caro, Eniola and Megan traded in partnership together, preparing accounts to 30 April each year. The partners have no other income or capital disposals other than those arising from the partnership.

<u>Transition profits</u>
The partners had total transition profits arising in 2023/24 as follows:

	£
Caro	24,000
Eniola	12,000
Megan	24,000

Eniola elected to tax £10,000 of her transition profits in 2023/24. No other elections have been made.

Continued

Continuation

Trading profits
The partnership's trading profits for tax purposes are:

	£
Year ended 30 April 2024	90,000
Year ended 30 April 2025 (estimated)	102,000

Profit share
Until 31 October 2024 the partners shared profits in the ratio 2:1:2 to Caro, Eniola and Megan.
On 31 October 2024 Megan left the partnership. After this date, Caro was allocated an annual salary of £30,000 before she and Eniola shared the remaining profits equally. Capital profits are shared equally between partners.

Transfer of assets
The partnership owned a car and a commercial building. Both assets were transferred to Megan when she left the partnership. The car had decreased in value since its purchase by the partnership. The building had increased in value. No Structures and Buildings Allowances had been claimed on the building.

Tax services
Megan was the partner who understood the most about tax matters relevant to the partnership. Therefore, the partnership will engage the firm of tax technicians, AZ Tax LLP, to deal with tax matters going forward. The partners and AZ Tax LLP are discussing fee arrangements. Caro and Eniola want to pay the firm a quarterly retainer.

Requirements:

1) **Calculate each partner's trading profit allocation for the year ended 30 April 2024 and the year ended 30 April 2025.** (4)

2) **Calculate each partner's taxable trading profits for 2024/25.** (4)

3) **Explain the Capital Gains Tax implications for Caro and Eniola of the asset transfers to Megan on her leaving the partnership. You should not explain administrative requirements.** (3)

4) **Explain the actions which AZ Tax LLP should take in respect of the retainer arrangement, to comply with Professional Rules and Practice Guidelines.** (4)

Total (15)