

Institution **CIOT - ATT**
Course **ATT Paper 2 Business Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	294	1265	1627
Section 2	347	1624	2063
Section 3	461	2146	2596
Section 4	293	1509	1789
Section 5	335	1541	1841
Section 6	237	1159	1362
Total	1967	9244	11278

Answer-to-Question- _1_

Part 1

Y/e 31.03.25			£
net profit			39,100
add back:			
cost of furniture			1,700
sales mark up			850
Daughters wages			20,008
Mileage home to shop			2,592
Private use of van			2,550
Legal Fees - late paid tax			800
Gifts of wine			934
Private use heat, light water			1,105
Private council tax and			2,338
Less CA			(9,824)
Tax adj profit			62,153

CA Y/e 31.03.25		AIA	Gen Pool (18%)	SR Pool (6%)	CA claim
Tax wdv b/f			4,800	16,000	
Additions					
Office Equipment		8,000			
AIA 100%		(8,000)			8,000
WDA 18%			(864)		864
WDA 6%				(960)	960
Tax wdv c/f		NIL	3,936	15,040	9,824

1. Cost of furniture = £1,700 + 50% sales mark up = £2,550
2. Alice wages
 $\text{£}25,000/52 = \text{£}481/5 = \text{£}96$ per day
Sue based on 1 day per week
 $\text{£}96 \times 52 = \text{£}4,992$

Add back as daughter is being paid above market rate is £25,000 - £4,992 = £20,008

3. Home to shop mileage is not allowable.

Add back $0.45 \times 5,760 = £2,592$.

Van restriction

$£3,900 \times 25\% \text{ PU} = £975$

$£6,300 \times 25\% \text{ PU} = £1,575$

Total add back = 2,550

4. Penalties for late paid tax not allowable. Renewal of lease allowable as a short lease and legal fees for trade debts allowable.

5. Gift of wine not allowable. Private health care is allowable.

6. Heat, light and water private use $£1,300 \times 85\% = £1,105$.

Council Tax and insurance = $£2,750 \times 85\% = £2,338$.

National Insurance Contributions

Class 4 National Insurance

Trade profit £62,153

$£62,153 - 50,270 = £11,883 \times 2\% = £238$

$50,270 - 12,570 = £37,700 \times 6\% = £2,262$

Total class 4 = £2,500

If Alex also has an employed role where he has made class 1 NIC contributions, his class 4 NIC may be restricted as he may have paid the annual maxima.

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

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

Answer-to-Question- 2

Capital Gain

Proceeds	1,000,000
Less acquisition cost	(360,000)
(120,000*3 = 360,000)	
Enhancement expenditure	(60,000)
Gain	580,000

Available Reliefs:

As Arefa is selling the Anytime Building and is purchasing a new building she can claim roll-over relief for the purchase of the Anytown building as long as this is purchased within 36 months of the sale of the Anytown building. This means she would need to purchase the Busytown building by the 01.06.2027. By claiming roll-over relief, she will not be required to pay the CGT on the sale of the first building as this would instead reduce the base cost of the second asset. If Arefa uses option one for the purchase of the building, this would be a depreciating asset which means the gain on the original asset will be frozen and the base cost of the building remains the same. The gain will be frozen until the earliest of: the asset is sold, the building is no longer used in the business or 10 years from the acquisition. If Arefa uses option 2, she can claim roll-over relief on the asset and reduce the base cost of the Busytown shop by the roll-over relief.

Asset 1

Proceeds	1,000,000
Less acquisition cost	(360,000)
(120,000*3 = 360,000)	
Enhancement expenditure	(60,000)
Gain	580,000

Cash retained gain £725,000

Cash retained = £1,000,000 - 275,000 = £725,000

Asset 2

Cost	275,000
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NIL

Base cost of asset 275,000

As the cash retained is higher than the ROR will be NIL

CGT will be based on £580,000

£580,000/3 = £193,333 relates to residential flat

As this is a material disposal used in the Business for over 2 years, Arefa can claim
BADR on the business element of the building.

CGT:

@ 24% = £193,333 * 24% = £46,400

@ 10 = £533,600 * 20% = £53,360

Total CGT = £99,760

Tax Scheme

Tax advice which we give has to comply with the standards for tax planning within
Professional Conduct in Relation to tax. We must provide full disclosure to HMRC of the
scheme and ensure any relief is allowable under the guidelines.

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

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

Answer-to-Question- 3

Online Sales

In order to assess whether Lucia's online sales will be taxable for income tax, we need to consider the badges of trade. The first point to consider is whether Lucia is purchasing goods frequently and selling these goods within a short time frame, as Lucia is not retaining the goods this would suggest a trade rather than a hobby. The second point to consider is profit-seeking motive, as Lucia has created a website solely for the purpose of online sales and showing how to use the items she sales this would indicate a profit-seeking motive and would therefore be deemed as a trade rather than a hobby. Another point to consider is the modification of the asset which could be demonstrated through the videos of how to decorate the room. Another point to consider is if there are similar trading activites, as Lucis is an interior designer and is making videos to design rooms and sell furniture this coul be considered a similar activity. Therefore Lucia would be considered as trading and would need to inform HMRC of her chargibility six months after the tax year which would be the 5th October 2025.

VAT

You are required to register for VAT when your taxable supplies exceed the £90,000 threshold. In regards to Lucia's online sales this will be the point that either through the VAT compulsory registration tests. This would be the historic test looking back at the previous 12 months. Or the future test, where sales in a period exceed £90,000. Despite LCS Designs Ltd being registered for VAT, this is treated as a separate entity for tax purposes and therefore does not impact the VAT requirements for online sales.

New business for Income tax purposes

Lucia will need to notify HMRC of her new business when her profit exceeds the trading allowance of £1,000 and begins trading. Lucia begins trading on the 10 April 2024 as this is the point she purchases furniture with the view to make sales. Lucia will be required to submit tax returns for the 2024/25 tax year and will need to register for self-assessment by the 5th October 2025. The 2024/25 tax return needs to be filed and payment required by 31st January 2026.

Allowable Costs

Lucia will be able to claim the storage costs of £150 per month only from the point all of her furniture was sole and the unit was used for the business stock.

Lucia can claim 60% of the van hire costs of £320 being £192 as a trading expense as the rest would be treated as personal use.

Lucia can claim the cost of the meetings as these were with suppliers rather than clients.

Lucia can claim the advertising cost of £289 as a trading expense.

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

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

Answer-to-Question- 4

Miko PLC Shares

Miko PLC		No. of Shares	Indexed Cost
01.01.2010	Acquisition	10,000	30,000
	(278.10-217.90)*10,000		2,165
		10,000	32,165
01.09.2019	1:4 @ £6	2,500	15,000
Rights issue			
01.03.2025	Disposal	(3,000)	(27,000)
Bal c/f		<u>9,500</u>	<u>20,165</u>

Proceeds £27,000
Less cost (11,320)
Capital Loss 15,680

Period 01.04.2024-31.03.2025 (12 months)
Period 01.01.2024-31.03.2024 (3 months)

		01.01.24 - 31.03.24 (3 mth)	01.04.24 - 31.03.25 (12 mth)
Adjusted net profit	2,100,000	420,000	1,680,000
Less CA	NIL		
Less SBA		(15,000)	(40,000)
Trading profits		405,000	1,640,000
NTLR		3,501	14,103
Less donations			(38,000)
TTP:		408,501	1,616,103
Dividends		7,000	10,000
Augmented profit		415,501	1,626,103
CT @ 25%		102,125	406,526

SBA

Qualifying expenditure = £2,500,000 - £500,000 = £2,000,000

£2,000,000 * 3% = £60,000 per annum

£60,000/12*3 = £15,000

April 24 - November 24 = 8 months. £60,000/12* 8 = £40,000

£14,000/12 = £1,167*9 = £10,503 + £3,600 = 14,103

Corporation Tax

The 15 month period ending 31.03.2025 must be filed 12 months after the end of the period of account. Therefore Latun Ltd must file there corporation tax return by 31.03.2026.

As Latun Ltd augmented profit exceed £1.5 million, they are deemed as a large company and therefore can pay there tax in installements.

The first installment will be due 14th July 2024 being the 14th day of month seven following on from the end of the accounting period.

The second installment is due 3 months plus 14 days from the first installment which would be the 14th October 2024.

The third installment is due 3 months plus 14 days from the second installment which would be the 14th January 2025 however as the final installment is due 3 months plus 14 days from the end of the accounting period both the third and final installment would be due on the 14th January 2025.

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

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

Answer-to-Question- _5_

The tax point for the goods is the date the goods are delivered, made available or collected.

As the car is an exempt purchase, there is no tax point for the car. The Hot Water system was paid on the 31st March and installed on the 18th April, therefore the tax point is the 18th April which is also when the invoice was provided.

The new packaging machine was delivered on the 30th June however the invoice was within 14 days which becomes the tax point. Therefore the tax point is the 4th July 2024. It is important for Wendic Ltd to determine the tax point of the purchases of plant and machinery as the date will depend on when they will be able to claim the input VAT.

30.09.24		AIA	Short life asset	Gen Pool	SR Pool	CA
Tax wdv b/f				68,000	43,000	
Additions:						
Car					30,000	
Hot water system			600,000			
New packaging machine		840,000				
Disposals:						
Solar panels Balancing charge						(80,000)
Car				(14,000)		
AIA 100%		(840,000)				840,000
wda 18%				(9,720)		9,720
wda 18%					(4,380)	4,380
Tax wdv c/f		NIL	600,000	44,280	68,260	774,100

Solar panels

Proceeds £20,000

Cost £100,000

Loss £80,000

Zero emmission car

Allowable costs

The letting fees are not an allowable cost as this is not incurred as part of the Business.
The interest on the loan is only allowable on the Business part of the building and will go against trading profit.

The replacement window is allowable if this was replaced like for like and deemed as repairs and will be against trading incomr.

Advertising for the sale of the building is not an allowable expense as this is not necessary for the running of the business.

The legal fees for the sale of the building are allowable and will need to be split for the business element and the CGT element.

The building insurance for the part of the building for the business is allowable against trading profit however the remainder cannot be used against the chargeable gain of the sale.

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

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

Answer-to-Question- _6_

		Caro	Eniola	Megan
2023/24				
01.04.24 - 31.10.2024	90,000			
Ratio 2:1:2	(52,500)	26,250	10,500	26,250
Transition profit				24,000
01.11.2024 - 31.03.2025	(37,500)			
Salary	(12,500)	12,500		
Ratio 50:50	(25,000)	12,500	12,500	
Total 23/24		51,250	23,000	50,250
Transition		4,800	2,400	
Total taxable profit		56,250	25,400	50,250
2024/25	102,000			
Salary	(30,000)	30,000		
Ratio 50:50		36,000	36,000	
Total 24/25		66,000	36,000	

Taxable Profit for 2024/25

Megan = 50,250

Caro = 56,250

Eniola = 25,400

Tax treatment for transfer of asset

As an asset is being given up in the business, the first set is that all partners will have a disposal at market value.

Megan as she is giving up the asset will have a chargeable gain on disposal of the market value. As Eniola and Caro are receiving the asset will have a notional gain which will be

rolled-over and reduces the capital gain base cost therefore if the sell the asset in the future they will have a higher capital gain.

Retainer arrangement

The partnership must understand that even if they do pay the firm a retainer, they are not the only client the firm services and they will not have preferential treatment over other clients. The partnership will only be able to have assistance under the scope of the letter of engagement and if they require any additional services the firm may not be able to cover the services and a new engagement letter will need to be issued.