

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	283	1169	1378
Section 2	345	1517	1812
Section 3	392	1739	2113
Section 4	264	1200	1390
Section 5	226	1077	1252
Section 6	269	1249	1452
Total	1779	7951	9397

Answer-to-Question- _1_

			£
Profit per accounts			39,100
Add back:			
Depreciation			6,400
Sales	note 1		2,550
Wages	note 2		40,000
Motor	note 3		5,850
Legal & Accoutning	note 4		800
Administrative	note 5		934
premises	note 6		3,810
Less:			
CA's	see w1		9,824
tax adjusted profit			89,620
12,570	@0%		
37,700	@20%		7,540
39,350	@40%		15,740
Total income tax			23,280

- 1) As per accruals rules, you keep the cost of sale and add the sales price of the finished goods - $\text{£}1,700 \times 150\% = \text{£}2,550$
- 2) Alex's wages are not allowable as it is his sole trade. Additionally, Sue (his daughter) is earning just less than someone doing the same job but 4 more days a week. This can be deducted that it is not a fair market value.
- 3) Home to shop mileage is not allowable. We will also have to deduct 25% private use on van and 15% as it is higher emmissions.
 $(5,760 \times .45) + (15\% \times 6,300) + ((6,300 \times 85\%) \times 25\%) + (3,900 \times 25\%) = 5,850$
- 4) Only the penalties are not allowable
- 5) As it is alcohol, the customer entertaining costs are not allowable
- 6)
 Heat etc - $1,300 \times 0.15 = 195$ - 1105 add back
 Insurance - $350 \times 1.64\% = 5$ allowable - 345 to add back
 Council tax - $2400 \times 1.64\% = 40$ allowable - 2360 add back

$(720 \text{ (hours per year from home)} / 8760 \text{ (hours in a year)}) \times 0.2 = 1.64\%$ - the allowable percentage

w1)

YE 31/03/25	AIA	Gen	SR	CA
B/F		4,800	16,000	
Additions	8,000			
@100%	8,000			8,000
@ 18%		864		864
@6%			960	960
total				9,824

2.

$$(50,270-12,570) \times 6\% = 2,262$$

+

$$(89,620-50,270) \times 2\% = 787$$

Total class 2 NIC payable = £3,049

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

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

Answer-to-Question- 2

1)

	Flat	Shop	Total
Proceeds	175,000	325,000	500,000
Less:			
Base cost	40,000	80,000	120,000
Improvements	60,000		60,000
Gain	75,000	245,000	320,000

2)

Firstly, she can claim rollover relief in respect of the gain on the shop as this is a business asset, and she is reinvesting the funds. If funds are fully re-invested she will not have a gain, and the new asset will take the base cost of the asset which had the gain rolled over.

If funds are not fully re-invested, the gain will have to be equal to the funds not re-invested. This will leave the base cost of the new property as the actual base cost less any rollover relief received.

If she purchases the lease, this will be considered a depreciating asset and the gain will instead be frozen. Then gain will become payable at the end of either sale of asset, ceasing the use of the asset or 10 years from acquiring the asset. If she were to keep it until she retires, she will incur the capital gains tax 2 years prior to retiring.

Assuming Arefa sold this shop as a whole, and would be considered as selling the business rather than just the building itself, she may be eligible for business asset disposal relief.

3)

		Shop	Flat
Gain		245,000	75,000
Less:			
Rollover relief	w1	(195,000)	
AEA			(3,000)

Gain		50,000	72,000
@10%			
@24%		5,000	17,280

Total CGT liability = £22,280

Note - I have claimed BADR on the basis she meets all the criteria, for example she has sold the shop rather than just the buidling as an empty shell.

w1 - £325,000 - £275,000 = £50,000 gain

4)

The PCRT would advise a tax professional to not co-operate in a tax avoidance scheme, and to assess if you should act for a client if they are involved in one. You also have a duty to advise the client to do the right thing, and you can explain to them the legality.

If they do enter the scheme, you have a duty to report this to the relevant body.

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

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

Answer-to-Question- _3_

1)

I believe that Lucia's sales from online would be considered as trading by HMRC and would therefore be subject to income tax. I believe this as she meets a lot of the badges of trade, for example the finance badge as she has arranged a small overdraft to help with cash flow.

It was also considered that she is not longer selling personal items which she did do initially, but she is purchasing stock to sell at relatively short turn-arounds. This would indicate she meets the badges for "Gap", "Profit-seeking motive" and "reputation".

In my opinion, she will have to report sales from stock purchased at 10 April 2024 or after. These sales will be subject to income tax within her 2024/25 tax return.

2)

Currently Lucia does not have to register for VAT, but she may have to in the future.

She will have to start charging VAT on her sales if the sales from the past 12 months exceeds the VAT threshold, which is currently at £90,000. If this happens, she will have to charge VAT from the following month.

If it so happens that her expected taxable supplies for the upcoming month will exceed the threshold alone, she will be to notify HMRC before the month ends, and VAT will need to have been charged from the start of the month.

3)

- Will need to notify HMRC of the chargeability to income by 5 October 25
- Any income tax will be payable to HMRC by 31 January 2026 for the 2024/25 tax year.
- Lucia will have to submit a self-assessment tax return disclosing all income and expenditure from her trade. Her personal furniture will not need to be reported as this is a wasting chattel and exempt.
- She will need to keep records of what she has reported for 5 years and 10 months after the end of the tax year it relates to.

4)

- a) The monthly cost of the storage from April 2024 will be allowable. Anything prior will not be allowable.

b)I would allow the percentage that relates to the stock pruchased for the trade - £320 x 60% = £192

c)Client entertaining will not be allowable, and there is a duality of purpose.

d)This will be allowable as pre-trading exepnditure as it is within the time frame and would be allowable anyway

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

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

Answer-to-Question- _4_

1)

Sale of Mike share	per share		Total - £
Proceeds			27,000
Less:			
Cost	4.263		(12,790)
Gain			14,210

Miko shares		No. shares	Cost
Jan 2010	Purchase	10,000	30,000
	Indexation		8,288
Sept 2019	Purchase	2,500	15,000
Total		12,500	53,288
Cost per share			£4.263

Indexation - £30,000 x ((278.1-217.9)/217.9)= 8,288

2)

			YE 31/12/24	3 ME 31/03/25
Trading income - before CA		see w1	1,680,000	420,000
Less: SBA's		see w2	(60,000)	(15,000)
Trade profit			1,620,000	405,000
NTLR			14,000	3,600
Chargeable gains			NIL	14,210
Less: CGT losses b/f				(6,000)

Less: QCD's			(38,000)	
TTP			1,596,000	416,810
@ 25%			399,000	104,203
Total CT				503,203

Note - both at main CT rate due to exceeding limits

w1 - $2,100,000 \times 12/15 = 1680000$

$2,100,000 \times 3/15 = 420,000$

w2 - £2 million, land is not included within SBA's

YE 31/12/24 - $2,000,000 \times 3\% =$

3ME 31/03/2025 - $(2,000,000 \times 3\%) \times 3/12 =$

Note - SBA can still be claimed if they are not in the building, assuming it not used for residential purposes

3)

a- Both fall into large companies when the limits are time apportioned property, however as in YE 31/12/23 he was not a large company they YE 31/12/24 will be exempt. They will have to make the following payments.

YE 31/12/2024

£399,000 by 1 October 25

3ME 31/03/25

As it is a short accounting period and the first payment would be due on the same day as the final payment, the entirety of the £104,203 is payable to HMRC by 14 July 25

b- They will have to file both corporation tax returns by 31 March 2026

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

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

Answer-to-Question- 5

1)

The time of supply is normally the basic tax point, which is when the goods are delivered, made available, or more likely is Wendic Ltd's case, when the goods are collected. There is also an early and late overrider depending on when payment or invoices are issued.

Car tax point - This will be 1 February 2024

Hot water system tax point - This will be 31 March 2024, as it was paid for before collecting goods.

Packaging machine - The £210k deposit will have a tax point of 28 May 24, the remaining £630k will have a tax point of 4 July 2024

It is very important to get the time of supply correct, as showed above it can affect which tax year/accounting period the transaction falls within.

2)

9ME 30/9/24	FYA	AIA	Gen	SR	CA claim
B/F			68,000	43,000	
Additions		840,000		30,000	
Hot water system	300,000			300,000	
Disposals	(21,000)*			(10,000)	
	279,000			363,000	
@100%	(21,000)	840,000			819,000
@50%	300,000				300,000
@18% (9/12)			9,180		9,180
@6% (9/12)				16,335	16,335
Total					1,144,515

Note - assumed the zero emission car had FYA claimed
also no private use for the director, this will be a BIK

* 50% of proceeds from solar panels & 100% from zero emissions car

3)

-
- 1-Against trading income
 - 2-Against trading income
 - 3-Against trading income
 - 4-Against chargeable gain
 - 5-Against chargeable gain
 - 6-Against trading income

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

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

Answer-to-Question- _6_

1)

YE 30/04/24		Caro	Eniola	Megan
Profit per accounts	90,000			
Salaries	NIL			
Interest	NIL			
Profit share ratio		36,000	18,000	36,000
Total		36,000	18,000	36,000

6 ME 31/10/24		Caro	Eniola	Megan
Profit	51,000			
Salary/ interest	NIL			
profit share		20,400	10,200	20,400
6 ME 30/04/25				
Profit	51,000			
Salary	15,000	15,000		
Profit share	36,000	18,000	18,000	NIL
Total		53,400	28,200	20,400

2)

Caro 24/25 taxable profit

YE 31/04/25 - $53,400 \times \frac{11}{12} = 48,950$

YE 31/04/25 - $36,000 \times \frac{1}{12} = 3,000$

Transitional profits - 4,800

Total 24/25 income - £56,750

Eniola 24/25 taxable profit

YE 31/04/25 - $28,200 \times \frac{11}{12} = 25,850$

YE 31/04/25 - $18,000 \times \frac{1}{12} = 1,500$

Transitional profits - 2,000

Total 24/25 income - £29,350

Megan 24/25 taxable profit

YE 31/04/25 - 20,400

YE 31/04/25 - $36,000 \times 1/12 = 3,000$

Transitional profits - 4,800

Total 24/25 income - £28,200

3)

On the transfer of the assets to Megan, it is deemed as a sale at market value. Assuming the car had never been claimed as a capital allowance, there will not be any implications of this transfer.

For the property, each partner is deemed to have a fractional share of the asset as per the partnership agreement, and on sale they will then be individually liable to capital gains and whatever reliefs they have available. The proceeds will be the market value at transfer.

For Megan, this will be a notional gain, and will not have CGT charged. This gain will reduce her base cost of the property for when she sells it.

4)

They may struggle for objectivity if they are on a retainer.