

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	497	2247	2629
Section 2	587	2805	3343
Section 3	758	3522	4263
Section 4	393	1853	2169
Section 5	353	1682	1976
Section 6	444	2194	2587
Total	3032	14303	16967

Answer-to-Question- _1_

1)

	£	£	£
		Adjustments	
Sales (w1)			468,550
Cost of sales			(285,000)
Gross profit			183,550
Less expenses			
Premises costs	(34,800)		
Wages (W2)	(65,000)	35,000	
Motor expenses	(17,000)	3,990	
Legal and accountancy fees (W3)	(6,700)	800	
Administrative expenses (W4)	(12,000)	934	
Depreciation	(6,400)	6,400	
Use of home (W5)	(745)		(95,521)
Capital Allowances (Table below)			(9,824)
Adjusted trade profit			78,205
Income Tax:			
12,570	0%	nil	
37,700	20%	7,540	
27,935	40%	11,174	
Total Income Tax due		18,714	

W1) Item 1 includes goods taken for own use, add back the full profit if it were sold in the business. Sales £466,000 + (£1,700 x 150%) = £468,500

W2) Alex salary is treated as a withdrawal of profits and is disallowed. As Sue is connected to Alex, only a fair and reasonable salary is allowable as an expense - the remainder is treated as a 'cash gift' in a similar sense to pocket money. Fair wage = Alice £25,000/5 = £5,000 for one day's work. Disallow £15,000 of Sue's salary and £20,000 of

Alex's 'salary'.

W3) A flat rate expenses have been claimed for the vehicle this must be done so throughout its use within the business. Disallow car running costs of £6,800 but deduct business miles.

Home to shop = not allowed

Travel to suppliers = $10,000 \times £0.45 = £4,500$

$300 \times £0.25 = £75$

Travel to customers = $£3,140 \times £0.25 = £785$

$£6,800 - £5,360 = £1,440$

Leasing of van is allowable but restricted at 75% business use - high emissions only permits 15% add back on cars. $£6,300 \times 25\% = £1,575$

Van running costs $£3,900 \times 25\% = £975$

Disallow: $£1,440 + £1,575 + £975 = £3,990$

W3) Accountancy allowable. Penalties of £800 are disallowed as not relating to trade and not entitled to tax relief on not obliging with the law. Legal renewal costs on a short lease are allowable. Legal fees for collection of trade debt are related to trade and are allowable.

W4) Provision of private health care is a BIK and therefore tax deductible. As the client gifts are 'drink' they are specifically not allowed.

W5) $(£2,400 + £350) \times 20\% = £550 + (£1,300 \times 15\%) = £745$

This is more beneficial than flat rate at £18 per month.

Capital Allowances	£	£	£	£	£
	AIA	General pool	Special rate pool		CAs
TWDV b/f		4,800	16,000		
Second hand office equipment	8,000				
AIA	(8,000)				8,000
	-	4,800	16,000		
WDAs 18%/6%		(864)	(960)		1,824
		3,936	15,040		
					9,824

2)

Class 4 NIC

12,570 0% nil

37,700 6% 2,262

27,935 2% 558

Total NICs due £2,820

Class 1 Secondary NIC

Alice £25,000

£12,570 x 0% = £nil

£12,430 x 13.8% = £1,715

Sue £20,000

£12,570 x 0% = £nil

£7,430 x 13.8% = £1,025

Total Class 1 Secondary NICs due £2,740 (The £1,025 is reclaimable as this was added back to the trading comps in the year).

BIKs

£1,412 x 13.8% = £194 (Total Class 1A NICs due)..

Total National Insurance Contributions = £4,039

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

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

Answer-to-Question- 2

1)

			£
Residential flat proceeds			175,000
Acquisition cost			(40,000)
Enhancement expenditure			(60,000)
Capital gain			75,000
Proceeds on office buildings			325,000
Acquisition cost			(80,000)
Capital Gain			245,000

2) If Arefa looks to take up the grant of a sixty year lease on the Busytown shop, she can claim relief on any of the rental payments in relation to this lease when paid. However, the premium is a capital payment in respect of land and therefore it is not an allowable deduction under the cash basis if this is the basis Arefa is trading on which due to no election claim status it is assumed they are. As this is a long lease, all of the premium is charged to capital gains tax on the provider, and therefore none of the premium is available for relief in the trading profits for Arefa. As this is long term it is likely to be a finance lease, therefore any interest costs and depreciation on this asset leased as specifically allowable for tax relief in calculating the yearly trading profits.

For the specific purchase of the shop at £275,000, as this is reinvested in a business asset, business asset rollover relief on any previous sales of business premises is available on the gains on that sale, up to the amount reinvested in the purchase of the Busytown shop as long as it is purchased within 3 years of the disposal of the old asset. This amount would increase the gain on the future disposal of this asset. Relief would be available on the disposal of this asset in the future if she sold it providing she has owned the business for the two years prior and the shop was used primarily for business use. This is Business Asset Disposal relief and limits any taxable gains to being taxed at the rate of 10% up to a lifetime limit of £1,000,000 gains. If Arefa kept the shop for 12 years post retirement then

this would not satisfy the previously mentioned conditions and any gains at the higher rate for CGT would be charged at 20%.

3)

		£	£
Capital Gain on Office Building			245,000
Cash retained (£325,000 - £275,000)			50,000
CGT BADR	10%	10,000	
Gain rolled over			(195,000)
Cost of Busytown shop			275,000
New base cost of Busytown shop			80,000
Residential gains			75,000
Annual exemption			(3,000)
			72,000
CGT HR (due to trading profits)	24%	17,280	
Total CGT payable		27,820	

4) The guidance given in Professional Conduct in Relation to Tax for proposed tax relief schemes are set out in the standards for tax planning as follows:

Client specific - any planning must be specific to the particular client's facts and circumstances.

Lawful - All members must act lawfully and with integrity and expect the same from their clients. We should assess this each time we do any form of tax planning. Clients must have their attention also drawn to where the law is materially uncertain specifically where HMRC are known to take a different view of the law.

Disclosure and transparency - HMRC must be disclosed with all of the relevant facts of tax planning.

Tax planning arrangements - We must ensure that tax planning arrangements are set out to achieve direct contradictory results to what the government has set out in the

legislation and that we do not create, encourage or promote such schemes.

Professional judgement and appropriate documentation - We must exercise professional judgement based on the standards above and keep relevant documentation if we proceed with the scheme proposed.

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

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

Answer-to-Question- 3

1) The items of furnishings and other household items have a predictable useful life not exceeding 50 years, and therefore are treated as wasting chattels. As the proceeds in total do not exceed £6,000 and therefore no individual wasting chattel exceeds proceeds of £6,000, all of these would be exempt from Capital Gains Tax. She will be charged to income tax on the online sales if these are classed as profits of a trade, profession or vocation. Trading is defined as any venture in the nature of trade, therefore we must refer to the badges of trade to determine whether she will be liable to income tax on these sales:

Profit-seeking motive: If a transaction is entered into with the intention of making a profit, or an asset is acquired with the intention of re-selling at a profit then this indicates a trade is being carried on, as Lucia initially sold her old furniture from her old house, her initial sales between January and March do not meet this badge. However, from 10 April 2024, she bought more furnishings which were resold, indicating trade.

Frequency and number of similar transactions increased following 1 June 2024 as repeated transactions of the same kind by Lucia met a second badge of trade.

Nature of the asset: it is clear that the items bought on 10 April 2024 were bought for resale purposes and not for personal use.

The assets have not been modified so this does not meet this badge of trade, but the sales following 1 June 2024 were carried out in a similar way to normal trading transactions and therefore this badge was also met.

The length of the ownership was also a short time indicating a further badge of trade, and the website building and financing to purchase further items also meets further badges of trade.

She also has a sales mark up of 25% on turnover therefore this indicates a profit seeking motive.

From May 2024 advertising was used to promote the trade, but due to the first sale being from 1 June 2024, trade did not begin until this date.

2) VAT would be required to be charged on sales when annual turnover exceeds £90,000. The compulsory VAT registration tests will be used to determine whether this must be a

requirement:

Historic test: this is done every calendar month and this assesses the previous 12 months, and if the annual turnover threshold limit is exceeded then VAT must be charged on sales.

Future test: This test assesses the next 30 days alone and if the registration threshold is exceeded then VAT must be charged on sales.

HMRC must be notified within the next 30 days and the before the end of that 30-day period respectively.

As Lucia's current turnover levels are only £24,000 she may choose to voluntarily register for VAT, this can be backdated to a maximum of four years.

3) As Lucia started trading on 1 June 2024 the first Tax Return due will be for the tax year ended 5 April 2025. HMRC must be notified of her new business income by 5 October 2025 so that a Self Assessment Tax Return can be issued on time. The Self Assessment Tax Return for 2024/25 containing all details of her sole trade must be submitted to HMRC electronically on or by 31 January 2026, or by 31 December 2025 if she wishes to have any potential tax liabilities collected via her tax code if applicable and she has a relevant source of PAYE income. The tax liability will otherwise be due on or by 31 January 2026, and her first payment on account for 2025/26 (being half of the income tax liability for 2024/25) will be due on the same date. Her second payment on account which will equal her first payment on account is due on or by 31 July 2026. These are treated as advance payments towards her tax liability for 2025/26.

4)

a) Leasing costs allowed as rental payments as pre-trading expenditure from the date she bought and stored the items resold in her trade. April + May = 2 months = £300

b) This van hire cost is apportioned for business use. $£320 \times 60\% = £192$

c) Providing light refreshments under the basis that these are genuine client meetings and not client entertaining is acceptable, and therefore pre trading expenditure of £260 is allowable for these.

d) Pre-trading expenditure of advertising costs is allowable in the first accounting period. £289 allowable.

Total costs allowable from the above = £1,041

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

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

Answer-to-Question- _4_

1) As Latun Ltd's shareholding in Miko plc was always less than 1% Substantial Shareholder's Exemption is not available.

Share disposal Miko plc	No of shares	Cost per share (£)	Indexed cost (£)
1 January 2010	10,000	3	30,000
Indexation allowance (w1)			8,288
			38,288
1 September 2019	2,500	6	15,000
Total	12,500		53,288
Sold	(3,000)		(12,789) (w2)
Balance c/f	9,500		40,499
Proceeds			27,000
Cost			(12,789)
Chargeable gain			14,211

w1) $((278.1-217.9)/217.9) \times 30,000 = 8,288$ (not to 3dp on share pool)

w2) $53,288 / 12,500 \times 3,000 = £12,789$

2)

15 month period to 31 March 2025		£	£
Tax adjusted trading profits		1,680,000	420,000
Capital allowances			-
Structure and buildings allowance disallowed (w1)		5,000	15,000

Trading profits		1,685,000	435,000
NTLR (amount accrued as accrual basis for ltd companies + the amount received up to December 2024)		14,000	3,600
Dividends (not taxable as UK dividends but part of Augmented Profits			-
QCD (registered charity allowable but not to political party as it is not a registered charity)		(8,000)	
Taxable Total profits		1,691,000	438,600
Capital loss offset (low so not restricted and a flexible loss)		(6,000)	
		1,685,000	438,600
CT @ 25% main rate		421,250	109,650

w1) $\text{£}2.5\text{m} - \text{£}0.5\text{m} = \text{£}2\text{m} \times 3\% = \text{£}60,000 \times 1.25$ (15 month period) = $\text{£}75,000$
Disapply for 4 months as not used for qualifying activity from 30 November 2024:
 $\text{£}75,000 \times 4/15 = \text{£}20,000$

3) For the 12 month period ended 31 December 2024, a corporation Tax Return must be submitted within 12 months being due on or by 31 December 2025. As the augmented profits exceed the annual rate of $\text{£}1.5\text{m}$ then the company is a large company for this period and must pay tax in quartlery instalments on the following dates:

14 July 2024
14 October 2024
14 January 2025
14 April 2025.

For the 3 month period ended 31 March 2025, a corporation Tax Return must be submitted within 12 months being due on or by 31 March 2025. We must pro-rata the limits to assess whether the company is a large company, with the 3 month limit being

£375,000. As this has been exceeded the payments will be due in quarterly instalments with the final payment being due 3 months and 14 days after the end of the accounting period as follows:

14 November 2024
14 February 2025
14 May 2025
14 August 2025

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

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

Answer-to-Question- _5_

1) The tax points for the following purchases are as follows:

Car with high CO2 emissions tax point is the date it is collected from the showroom as this is the same date at which it is paid for. This will be brought into use for trading from this date.

Hot water system - the obligation to pay became unconditional 18 April 2024 as this is when it was invoiced and installed for use, therefore this date is the tax point.

New packaging machine, likely required to be paid upfront on order, therefore this is when the obligation to pay is unconditional and therefore 28 May 2024 is the tax point for this.

2)

CAs 9 month period	£	£	£	£	£
Ended 30.09.2024	AIA	General pool	Special rate pool	Single asset	CAs
TWDV b/f		68,000	43,000		
Car with 200g/km CO2 emissions			30,000		
Hot water system	600,000				
AIA	(600,000)				600,000
New packaging machine(AIA max £750,000 9 month period)	150,000	690,000			
AIA	(150,000)				150,000
Solar panels (20,000 x 120%) with VAT				(24,000)	
Balancing charge				24,000	(24,000)
Zero emissions car with VAT (11,000 x 25%)		(13,200)			

	-	744,800	73,000	-	
WDAs 18%/6% (apportioned 9/12)		(100,548)	(3,285)		103,833
		644,252	69,715		
Capital Allowances					829,833

3)

Whether the costs incurred on the sale of the building will be deductible for chargeable gains or against trading income are broken down as follows:

- 1 - Letting agent's fees relate to rental and therefore are deductible against trading income.
- 2 - Interest on the loan used to buy the building is a capital cost and deductible from chargeable gains.
- 3 - Replacement window for a broken window is repair costs and revenue in nature and deductible from trading income.
- 4 - Cost of advertising the building for sale is a costs relating to the disposal and therefore deductible from chargeable gains.
- 5 - Legal fees on the sale of the building are deductible as a capital expense against chargeable gains as they relate to costs of the sale of the building.
- 6 - Building insurance for the building is a revenue and trading cost and deductible therefore against trading income.

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

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

Answer-to-Question- _6_

1)

Profit Sharing Allocations:

Y/e 30 April 2024	Total (£)	Caro (£)	Eniola (£)	Megan (£)
	90,000			
2:1:2 to 31 October 2024 Eniola left	(45,000)	18,000	9,000	18,000
Annual salary 6/12	(15,000)	15,000		
	30,000	15,000	15,000	
Total trading profits each for y/e 30 April 2024		48,000	24,000	18,000
Y/e 30 April 2025 (estimated)	102,000			
Annual salary	(30,000)	30,000		
	72,000	36,000	36,000	
Total trading profits each for y/e 30 April 2025 (estimated)		66,000	36,000	

2) Caro taxable trading profit for 2024/25:

$£48,000 \times 1/12 = £4,000$

$£66,000 \times 11/12 = £60,500$

Transition profits $£24,000 \times 20\% = £4,800$

Taxable trading profit = $£69,300$

Eniola taxable trading profit for 2024/25:

$£24,000 \times 1/12 = £2,000$

$£36,000 \times 11/12 = £33,000$

Transition profits remaining over 4 yrs $£2,000 \times 25\% = £500$

Taxable trading profit = 35,500

Megan taxable trading profit for 2024/25:

$£18,000 \times 1/12 = £1,500$

Transition profits all remaining taxable on cessation = $£24,000 \times 80\% = £19,200$

Megan taxable trading profit = £20,700

3) As the car is sold at a loss - usually any sales to connected persons are therefore valued at market value, however cars are specifically exempt and therefore this disposal is not liable or subject to Capital Gains Tax. The building will be treated as a disposal by the individuals to Megan and will be liable to Capital Gains Tax at market value, it is likely that taxable gains on Caro and Eniola will qualify for Business Asset Disposal relief providing the asset was primarily used for business purposes and therefore only taxed on taxable gains at the lower rate of 10% (up to a lifetime limit of £1,000,000 for each individual). This is calculated at market value as they are classed as connected persons due to being fellow business partners at the time of the transfer of the assets.

4) AZ Tax LLP should firstly prepare and issue an engagement letter for signature which clearly identifies and sets out the scope of work and what is required and expected of the firm to avoid any confusion or any future disagreements. This should also clearly outline the base fee or expected fees so that it is agreed upon prior to entering into the retainer arrangement also including the point at which any further fees may be charged.

Before fully agreeing to the retainer arrangement with the partnership, AZ Tax LLP should fully consider their ability to fulfil their already ongoing obligations to other clients. AZ Tax LLP should then consider carefully all the potential implications before finally entering into the retainer arrangement and any specifics in relation to the termination of the retainer arrangement should be clearly set out.