

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	259	1301	1462
Section 2	350	1731	2029
Section 3	354	1602	1930
Section 4	229	1135	1295
Section 5	328	1540	1818
Section 6	343	1659	1943
Total	1863	8968	10477

Answer-to-Question- _1_

1

Alex

Tax adjusted profits

2024/25

	£			
Net profit	39,100			
Deemed sale	2,550	1700*1.5		
Disallowed part of Sue's wages	15,000	Note 1 (20000-5000)		
Add back car running costs	6,800			
Flat rate motor expense	(5,360)	(W1)		
Private use van leasing	1,575	25%*6300	No high emission charge on Vans	
Private use van running	975	25%*3900		
Late tax penalty	800			
Accountancy	-			
Short lease renewal legal	0			
Debt collection fees	-			
Private healthcare	-	BIK for employees		
Gifts	934	Food and drink not allowable		
Council tax	(480)	20%		

Insurance	(70)	20%		
Flat rate expense 60 hours per month	(216)	12*18	Preferable to 15% of actual	
Capital allowances (W2)	(9,824)			
Tax adjusted profits	51,784			
			Income tax payable	
Personal allowance	(12,570)	@0%		
Basic rate	(37,700)	@20%	7,540	
Higher rate	(1,514)	@40%	606	
Total income tax payable			£8,146	

Note 1 - wages to relative or connected person need to be reasonable for the work done.
 Assumed 1/5 of Alice's wages as doing 1 day compared to her 5 days

(W1) flat rate motor available on miles except home to shop - 13,440 miles. 10000@45p
 plus 3440@25p

(W2) Capital allowances

	Main	Special	AIA 100%	Claim £	
TWDV 1/4/24	4,800	16,000			
Addition			8,000		
WDA (18/6/100%)	(864)	(960)	(8,000)	(9,824)	

2
 Total NIC payable

Class 4 NIC

	£	Class 4 NIC	
@2% (51784-50270)	30		
@6% 37700	2,262		
		£2,292	

Class 1 employer

Alice - $13.8\% \times (25000 - 9100) = 2,194$

Sue - although part disallowed in income tax comp, assuming full amount will go through payroll.

$13.8\% \times (20000 - 9100) = 1,504$

Total £3,698

Alex can claim employment allowance of £5,000 so no Class 1 employer NIC will be payable

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

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

Answer-to-Question- 2

1) Capital gain

	£			
Proceeds	500,000			
Cost initial	(120,000)			
Conversion costs	(60,000)			
Capital gain	£320,000			

2)

Part of the disposal of the Anytown building is disposal of a business asset qualifying for rollover relief. Land and buildings used for the purposes of a trade are eligible.

Only the business element of the gain will be eligible as 1/3 has been rented out as a flat

The purchase of a 60 year lease and the purchase of a shop both qualify as business assets so rollover relief will be available.

Rollover relief is available to the extent that the business proceeds from Anytown are reinvested. Only the remainder is eligible for rollover relief.

The lease is a depreciating asset. This means that the gain rolled over is not actually rolled over but is frozen until the earlier of

- 1 - 10 years
- 2 - lease sold
- 3 - Busytown shop no longer used in trade

For the purchase of the Busytown shop the rollover relief claim reduces the base cost of the shop which increases the gain if/when the shop is sold.

The new asset must be purchase within 12 months previous to 36 months after disposal of Anytown and a claim is required within 4 years of the end of the tax year of disposal or acquisistion (whichever is later)

3

Arefa
2024/25
CGT payable

	Business	Non Business		
Proceeds	325,000	175,000		
Cost	(80,000)	(40,000)		
CONversion		(60,000)		
Rollover relief (balance)	(195,000)			
Gain	50,000	75,000	325000-275000	

CGT payable

	£	CGT payable	
Gains	125,000		
AEA	(3,000)		
@20% - no unused lower limit as profits 67,000	(122,000)	£24,400	

4

Guidance is given in the Standards for Tax Planning

The standard states that members must not promote/encourage/enable arrangements which are contrary to the clear intention of the legislation or are artificial/contrived and designed to exploit loopholes in the tax legislation

Where we have uncertainty over the arrangement and if it is in breach of the standard we should (1) document the reasoning behind our uncertainty (2) advise Arefa in writing of the uncertainties/risks (3) advise Arefa of relevant disclosures which should be made (e.g. to HMRC)

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

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

Answer-to-Question- 3

1 - it is likely that Lucia will be viewed as trading from 10 April 2024. We look at this under "badges of trade". The relevant badges are:

Finance - Lucia arranged an overdraft to finance the activities on this date

Repetition - Lucia is now starting to make repeated transactions - it is reasonable to view the sales between January and March as "one-offs" due to moving house but not from 10 April

Organisation - Lucia set up a website on 10 April

Gap - it appears from 10 April that the furniture is just being bought for resale - it is not held personally by Lucia for a significant time

Similar trading activities - it is fairly similar to her interior design business

2

If HMRC view this as part of the existing VAT registration due to the similar nature of activities then Lucia would need to start charging VAT immediately.

If it is accepted as a separate sole trader business then Lucia would need to register for VAT when sales for the previous 12 months (reviewed each month end) exceed £90,000 and if this happens register within 30 days and start charging VAT from the 1st day of the next month.

Or under the future test, if taxable supplies for the next 30 days alone are expected to exceed £90,000, registration is required.

3

Although likely to be viewed as trading from 10 April 2024, Lucia does not need to notify HMRC of her new business until it becomes chargeable to income tax - this will be when sales exceed £1,000. The first sale wasn't until 1 June 2024. Assuming sales exceeded £1,000 for 2024/25, Lucia has until 5 October 2025 to notify HMRC of her chargeability to income tax.

A self assessment tax return will be required by 31 January 2026 and the tax liability for 2024/25 will be due for payment on the same day.

4

Allowable costs

	Allowed 24/25 £			
Storage Unit	2,250	pre trading expenditure within 7 years - would be trade expense	1/1/24 to 31/3/25	
business element Van cost	192			
Cafe	-	client entertaining		
Advertising	289			

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

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

Answer-to-Question- 4

1

Gain on Miko Plc shares

S104 pool

	#	£		
1/1/10	10,000	30,000		
IA Jan 10 to Dec 17		8,288	278.1-217.9	
Rights issue 1/9/19	2,500	15,000		
S104 pool	12,500	53,288		

Gain

	#	£	
Proceeds	3,000	27,000	
Cost	(3,000)	(12,789)	3/12.5*53288
Gain		£14,211	

2

Latun Limited

Corporation tax - 15 months ended 31/3/25

	P1 - 1/1/24 to 31/12/24	P2 - 1/1/25 to 31/3/25		
Trade profit (12:3)	1,680,000	420,000		

Strucutures and buildings allowance	(60,000)	(15,000)	Allowed even when in disuse (3%*2m)	
Chargeable gain		14,211		
NTLR	14,000	3,600		
QCD	(8,000)		Political not allowable	
Capital loss b/f		(6,000)		
TTP	1,626,000	416,811		
Dividends	10,000	-		
Augmented profit	1,636,000	416,811		
Corporation tax payable @25%	£409,000	£104,203		

3

For the period to 31/12/24, Latun is a large company (profits>1.5m). It would be required to pay by instalments but is exempt as was small company in previous period (31/12/23 augmented profits=1,450,000+7000 which is <£1.5m)

Therefore £409,000 is due 9 months and 1 day after 31/12/24 - 1 October 2025.

Prorating the limit for a 3 month period the threshold for a large company is £375,000 (1.5m/4). Therefore instalment payments are required for the second period.

It is only a three month period however so just one instalment is due - 3 months and 14 days after the period end - 14 July 2025 payment of £104,203 due.

The due date for both returns is 31 March 2026.

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

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

Answer-to-Question- _5_

1

Tax points P and M

The general rule is that the tax point is the date the expenditure is incurred. This will usually be the date the obligation to pay becomes unconditional.

It is important as it can help to ensure that allowances such as annual investment allowance and first year allowance are maximised.

1 - car emissions 200g - here the tax point is clear 1/2/24 as paid and collected on this date

2 - hot water system - although paid for in advance, the payment didn't become unconditional until it was installed - the tax point is 18/4/24

3 - new packaging machine - the delivery date would be the tax point - this would only be overridden by a later payment date if at least 4 months later - tax point 30/6/24

2

Wendic Ltd

Capital allowances

9 months ended 30 September 2024

	General	Special rate	AIA (750,000 for 9 month period)	FYA 100%		
TWDV 1/1/24	68,000	43,000				
1/2/24 - new car		30,000				
18/4/24 - hot water system			500,000			net of VAT

30/6/24 - new packagin g machine			250,000	450,000		net of VAT
sale of panels (50%)		(10,000)			Claim	
Subtotal	68,000	63,000	750,000	450,000		
WDA @18/6% at 9/12	(9,180)	(2,835)			12,015	
WDA 100%			(750,000)	(450,000)	1,200,000	
					£1,212,015	

Balancing charge of £11,000 added to profits not adjusted through CAs

3

letting agents fees - three quarters of these will be an allowable trade expense and one quarter assessed under UK Property Income

Interest on loan - again, 3/4 is trading and an allowable trade expense and one quarter non trading and assessed under Non Trading Loan Relationships (NTLR)

Replacement window - this is an allowable repair (trade expense)

Cost of advertising the building for sale is a selling cost which can be deducted from the capital gains proceeds

Legal fees are a selling cost which can be deducted from the capital gains proceeds

Buildings insurance will be treated as per letting agents fees (see point 1)

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

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

Answer-to-Question- _6_

1)
Profit allocation

30 April 2024

Caro and Megan (2/5) - £36,000 each
Eniola (1/5) £18,000

year ended 30 April 2025

	Caro	Eniola	Megan		Profit £
1/5/24 to 31/10/24 (6/12)					51,000
PSR (2:1:2)	20,400	10,200	20,400		(51,000)
1/11/24 to 30/4/25					51,000
Salary (6/12)	15,000				(15,000)
PSR (50:50)	18,000	18,000			(36,000)
Profit allocation 30/4/25	£53,400	£28,200	£20,400		

2) Taxable trading profits 2024/25

	Caro	Eniola	Megan		
6/4/24 to 30/4/24	3,000	1,500	3,000	1/12 of 30/4/24 amount	
1/5/24 to 5/4/25	48,950	25,850	20,400	full amount Megan 11/12 others	
Transition profits	4,800	500	4,800	20% C and M - 1/4 of	

				(12000-1000 0) E	
Taxable trading profits 2024/25	£56,750	£27,850	£28,200		

3)

The car is exempt from CGT even if capital allowances have been claimed on it. There is no allowable capital loss.

A gain will arise on the transfer of the building to Megan. It is calculated with proceeds deemed to be the market value at the date of transfer.

The gain will be split between all 3 partners based on the profit sharing ratio - so Caro will have a capital gain of 40% of the gain calculated and Eniola 20%

4)

So that the firm and Caro/Eniola are clear on the extent and limitations of the retainer arrangement, this should be set out/agreed in writing. The Letter of Engagement would be appropriate for this or if not, a supplemental letter.

The written letter/agreement should make it clear, at what point further charges would be levied.

It should also make it clear, to what extent the partnership can call on AZ's services and what exactly is covered.

AZ Tax needs to consider other clients and if they can still be treated fairly. For example, there may be a risk that other client work is neglected if the firm is required to prioritise the demands of the partnership.

The retainer should be reasonable compared to the level of work required. The agreement should make it clear under what circumstances the retainer may become repayable and what happens if either party wants to end the retainer agreement