

ATT May 2025 – Paper 2 – Business taxation

Examiner's report

Question 1

Part one of Question 1 was generally well answered. Candidates are confident with a sole trader adjustment to profit and the calculation of the tax and National Insurance were straightforward.

A number of candidates missed the adjustment for depreciation in their haste to deal with the more complex adjustments. The add back for the furniture taken for personal use was sometimes taken at the wrong figure: not including the profit element, and occasionally adjusted as a capital item and included in capital allowances. The adjustments for wages were usually picked up, although the adjustment wasn't always correctly calculated. The add back for the car running expenses was also not always correctly calculated, with some candidates using a percentage amount. The adjustment for use of home did present some problems, as candidates compared the cost calculation (20% of council tax and insurance and 15% of heat and light) with the flat rate of £216 alone. Another issue was then adding the allowance back rather than deducting it. If candidates thought the housing costs had already been included, then credit was given for a correct adjustment of the private element of the costs.

The Class 4 National Insurance costs were usually included and correctly calculated, but not always the Class 1 and Class 1A costs. A calculation that appeared quite often was the total of the wages for Alice and Sue (£45,000) less only £9,100.

Question 2

Question 2 was usually well answered, although a number of candidates included Indexation Allowance. The rules for rollover relief were well known. However, a number of candidates also explained the rules for business asset disposal relief, which did not apply. Other errors included giving full rollover relief (i.e. not charging the cash retained), incorrect use of the 10% rate and applying a 20% tax rate to the gain on the flat.

Part 4 was an ethics question. As always, the issue was ensuring that the rules were interpreted in the light of the facts given in the question rather than just listed from guidance.

Question 3

Question 3 was also well answered, if full consideration was given to the question requirements. Sometimes, the answer to part one 1 was similar to the answer to part 3. A number of candidates explored fully the badges of trade, but did not discuss either the first sales of Lucia's own furniture or give the date when Lucia was trading. Many candidates gave 10 April as the start date rather than 1 June, when the first sale was made.

Question 4

Part 1

This was generally done well with many candidates scoring maximum marks. A significant proportion of candidates either did not calculate indexation allowance at all or calculated this incorrectly. A minority of candidates were unable to calculate the rights issue correctly.

Part 2

Where candidates identified that there should be two periods, they generally did very well, often scoring full marks. Many candidates either did not include the gain at all, or did not deduct the capital loss from the gain. A significant minority of candidates deducted the political donation in their computation. Another common error was to calculate Corporation Tax on the Augmented profit figure.

Most candidates recognised that land was not eligible for SBA, but many candidates did not recognise that the SBA needed to be pro-rated.

Part 3

Only a minority of candidates considered the information related to the prior period when deciding whether the company was required to make quarterly instalments. The filing dates were generally done well.

Question 5

Part 1

Where candidates identified that this task was about VAT tax points, they generally did well, although a significant minority wrote out the rules around tax points without giving any consideration to the items purchased within the scenario.

Part 2

This task was generally well done with most candidates identifying the appropriate treatment for the additions and calculating writing down allowances correctly. The disposals were done less well.

Part 3

Where candidates explained the treatment of each item they typically did very well on this part. However, many candidates included a short generic paragraph discussing the costs as a whole. Others made no attempt to explain the treatment of each item, instead writing 'deductible' or 'not deductible' next to each number.

Question 6

Part 1

This part was generally well done with many candidates scoring full marks. Candidates did less well when they did not read the question carefully resulting in Megan leaving the partnership in the incorrect accounting period.

Part 2

Many candidates either did not attempt this part, or if they did, did not include transition profits within their response. Very few candidates were able to identify the correct transition profits for Eniola.

Part 3

The majority of candidates wasted time in this part explaining the treatment of the gain for Megan. While most candidates were able to identify that a gain would exist for Caro and Eniola, they discussed this generically and gave no consideration to the specific assets in the question. Very few considered the AEA or tax rates applicable for Caro and Eniola.

Part 4

This part was generally very well done with the majority of candidates scoring full marks. Candidates who did less well, typically focussed on conflict of interest rather than the implications of entering a retainer agreement.