

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Lotte started a sole trader business as a vehicle mechanic on 1 April 2023. She has contacted your firm as she has realised that she is behind with her tax affairs. She has provided you with draft accounts for the year ended 31 March 2024 prepared on an accruals basis:

	<u>Notes</u>	£	£
Sales			149,600
Cost of sales	1)		<u>(85,100)</u>
Gross profit			64,500
Rent	2)	15,450	
Heat, light and water costs (all allowable)		5,700	
Office wages (all allowable)		24,500	
Repairs (all allowable)		10,400	
Administrative costs	3)	13,900	
Interest	4)	2,400	
Depreciation	4)	<u>16,000</u>	
			<u>(88,350)</u>
Net loss			<u>(23,850)</u>

Notes

- 1) Cost of sales includes £750 for the cost of time spent by one of Lotte’s employees to repair Lotte’s motorbike. A customer would have been charged £1,500 for the same repair.
- 2) Rent costs are for a workshop. Lotte uses one third of the workshop space to store her motorbike, which she uses to travel to the workshop. She doesn’t claim for the motorbike’s running costs.
- 3) Administrative costs include £1,500 legal costs for the new lease on the workshop.
- 4) Interest costs are for a finance lease agreement on a van taken out during the year. The cost of the van was £24,000, The cost was included in the balance sheet and depreciation of £4,000 provided in the year.
- 5) Lotte also bought equipment costing £53,900 for the workshop during the year. This is not included in the calculation of the net loss.
- 6) All figures exclude VAT where relevant.

Before she set up the business, Lotte was employed earning a salary of £4,500 per month. She ceased employment on 31 March 2023.

Lotte estimates that her trade profits will be £25,000 for 2024/25 and £65,000 for 2025/26.

Although she registered for self-assessment and received a notice to file a return on 1 July 2023, she has not yet filed her return as she has been too busy with the business.

She has no other taxable income or outgoings in any tax year.

Continued

Requirements:

- 1) Calculate Lotte’s taxable trade profit/(loss) for 2023/24 under the accruals basis. (4)
- 2) Explain how Lotte can claim relief for the loss, assuming a loss of £58,000 and relief claimed as soon as possible. (3)
- 3) Calculate Lotte’s Class 4 National Insurance contributions for 2024/25 and 2025/26, assuming a loss for 2023/24 of £58,000 has been set against income in earlier years for Income Tax purposes. (3)
- 4) Explain the late filing penalties incurred by Lotte for her 2023/24 tax return. (3)
- 5) Explain the purpose and content of an engagement letter and outline the procedures in the Professional Rules and Practice Guidelines for issuing an engagement letter to Lotte. (3)

Total (16)

2. Antoni has operated a restaurant for many years and ceased trading on 31 December 2024.

VAT

The last VAT return that Antoni completed was for the quarter ended 30 November 2024. You have been given the following information about the period from 1 December 2024 to cessation:

	<u>VAT exclusive</u>
	£
Sales	56,000
Zero rated purchases	25,000
Standard rated purchases	8,900

All the fixtures and fittings which had been used in the restaurant were sold at auction on 20 January 2025 for £12,600 (including VAT).

Disposal of assets

Antoni owned the two-floor building from which the restaurant operated. The ground floor of the building was used for the restaurant and the first floor was rented out as offices. He bought the building for £175,000 in December 1998 and spent £80,000 on alterations before opening the restaurant and renting out the first floor.

Following the closure of the restaurant, Antoni continued to rent out the first floor as offices and rented out the ground floor from 1 February 2025 for use as a cafe. He sold the building on 31 March 2025 for £450,000.

The fixtures and fittings that sold at auction on 20 January 2025 had a cost of £45,000 and all capital allowance claims had been made.

Antoni had a capital loss brought forward of £12,000 and had made no previous claims for any Capital Gains Tax reliefs.

Self-assessment payments

Antoni’s Income Tax liability for 2024/25 was £6,000 and his Class 4 National Insurance contributions were £1,800. He paid two payments on account of £3,300 each on 31 January 2025 and 31 July 2025.

Following the sale of the restaurant, Antoni had no taxable income other than a salary taxed under PAYE which started on 6 April 2025.

Continued

Claim

Antoni had received a claim in January 2025 from a restaurant customer. The customer has claimed for damages as a result of poor service at the restaurant for a wedding reception. Antoni does not expect the claim to succeed and so no provision for the claim or anticipated legal costs was included in the accounts to cessation. He has asked what relief would be available if there are any costs incurred in the future.

Requirements:

- 1) Explain, for VAT purposes, how Antoni will deal with the cessation of his business and calculate any VAT due. Ignore the building for the purposes of this requirement. (4)**
- 2) Calculate, with explanations, the Capital Gains Tax due on the asset disposals, ignoring VAT. (8)**
- 3) Explain the tax and National Insurance payments Antoni is liable for from 1 January 2026 onwards, and outline any claims he may be entitled to make. (3)**
- 4) Explain what relief would be available to Antoni if he has to make any payments if the claim succeeds in the future. (3)**

Total (18)

3. Yanek, who is not VAT registered, has traded since 2016 providing catering services for weddings and other events. He has prepared accounts to 31 March each year on the accruals basis. He has not made an election to use the accruals basis for 2024/25 onwards.

You have been provided with the following information for 2024/25:

	<u>Notes</u>	£
Taxable sales		85,600
Allowable expenses		27,900
Balance at 1 April 2024	General pool	7,300
	Private use asset	1) 14,600
	Structures and buildings allowance	2) 9,250

Notes

- 1) The private use asset relates to a car with emissions of 182g/km bought by Yanek in 2021 which is used 50% for business purposes. The business has no other cars.
- 2) Yanek spent £10,000 on a small outbuilding in 2021 which he uses to store his business equipment. As at 1 April 2024, he had claimed structures and buildings allowance of £750.

Change of car

Soon Yanek intends to replace the car which he uses 50% for business purposes. The car that he wants to buy costs £35,000. He will replace the car again after three years, when he expects the market value to be £20,000. The running costs of the car are estimated at £8,000 per annum. His total mileage each year is expected to be 24,000 miles of which 50% will be for business purposes.

Gift of building

Yanek's mother, Nora, has traded for many years as a farmer. In September 2025, she sold a building to Yanek for £130,000 which had been used on the farm throughout Nora's period of ownership. The building had cost £95,000 and its market value in September 2025 was £250,000. Nora has used her £1 million lifetime allowance for business asset disposal relief. Her taxable income for 2025/26 is expected to be £30,000. She will make no other capital disposals in 2025/26 and has no losses available.

Continued

- Total (15)

Year ended 31 March 2025

The following expenditure had been deducted when calculating the accounting profits:

	<u>Notes</u>	£
Staff costs	1)	216,000
Building insurance costs	2)	50,000
Depreciation of plant and machinery		18,500
Replacement part for a broken machine		700
Loss on the disposal of a cutting machine	3)	4,000
Donation to UK registered charity		500
Health and safety costs	4)	16,000
Entertaining costs	5)	2,000
Interest payable	6)	5,000

Notes

- 1) Staff costs include amounts accrued at 31 March 2025 for directors' bonuses of £20,000 and pension contributions of £9,000. Both amounts were paid on 30 April 2025. There were no such amounts accrued at 31 March 2024.
- 2) Of the building insurance costs, 10% related to the workshop that Grinok Ltd rented out.
- 3) The cutting machine was sold for £6,000, which was less than it had cost Grinok Ltd in May 2022. Grinok Ltd had claimed the super-deduction on the purchase. At 1 April 2024, the company's tax written down value was £7,200 in the general pool and £800 in the special rate pool.
- 4) The health and safety costs include £15,000 for a fine for breaching regulations. The remaining £1,000 was incurred on staff training costs.
- 5) Entertaining costs were £300 for entertaining clients and £1,700 for the annual staff party for eight employees.

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Continuation

- 6) Interest payable was £3,800 for an overdraft used to fund working capital and £1,200 on a loan to purchase the workshop which Grinok Ltd rented out.

Year ended 31 March 2024

Grinok Ltd had only trading and property income in the year ended 31 March 2024.

The company received a notice to deliver a Corporation Tax return for the year ended 31 March 2024 on 10 April 2024. It submitted the return for that year on 20 April 2025.

Requirements:

- 1) **Calculate Grinok Ltd's Corporation Tax payable for the year ended 31 March 2025.** (15)
- 2) **Explain the latest date by which HMRC could open an enquiry into the return for the year ended 31 March 2024, and explain the circumstances under which HMRC could raise an assessment after this date.** (4)

Total (19)

5. Mackiem Ltd, a trading company, was set up by Priya in 2007.

Shareholdings

Priya owned 90 £1 ordinary shares in Mackiem Ltd. This was the company's entire issued share capital until 1 April 2019 when the company issued 10 new £1 ordinary shares to Liam. Liam subscribed for the shares for cash. Liam has not worked for Mackiem Ltd and is not connected with Priya.

Liam sold his shares in Mackiem Ltd to an unconnected individual on 28 April 2024, making a gain of £50,000. Liam has not previously made any chargeable disposals.

Sale of land

On 1 June 2024, Mackiem Ltd sold 0.1 hectares of a 0.4 hectare plot of land used in its trade for £73,000. The remaining 0.3 hectares were valued at £240,000 at that time. The company originally purchased the entire plot in March 2007 for £95,000 and incurred acquisition costs of £3,000. Legal fees of £5,000 were paid in connection with the sale.

Payments of Corporation Tax

Mackiem Ltd must make quarterly instalment payments of Corporation Tax as a large company. Its Corporation Tax liability for the eight months ended 31 August 2024 was £300,000.

The company made instalment payments on the due dates for that period. Based on estimated profit figures at each date, it paid £70,000 for the first instalment and £160,000 for the second instalment. On the due date for the third instalment, the correct cumulative payment was made, based on the final Corporation Tax liability of £300,000.

Continued

Requirements:

- 1) Explain why Liam can claim investors' relief on the disposal of his shares in Mackiem Ltd and the date by which a claim should be made. (4)
- 2) Calculate Mackiem Ltd's chargeable gain on the sale of the land in June 2024. (3)
- 3) a) State the due dates and calculate the amounts due on each date, for the Corporation Tax payable for the eight months ended 31 August 2024. (3)
- b) Calculate amounts over/underpaid and the interest arising on the first two Corporation Tax instalment payments for the eight months ended 31 August 2024, stating the Corporation Tax treatment of such interest. (5)

Total (15)

6. Arika and Bindi have traded in partnership for many years.

Partnership profits

The partnership's taxable trading profits for recent years are:

	£
Year ended 30 June 2024	120,000
Year ended 30 June 2025	100,000

The partners shared profits equally until 30 September 2024.

From 1 October 2024, Arika is allocated an annual salary of £10,000 and the partners are allocated interest on their capital accounts of 5% per annum. The remaining profits are shared in the ratio 2:3 (Arika: Bindi).

Arika had a capital account of £50,000 and Bindi had a capital account of £20,000. These amounts have not changed over recent years.

Arika had transition profits of £35,000 arising in 2023/24. She intends to make an election to tax as much of her transition profits as possible in 2024/25, having made no previous election.

Marketing services

The partners intend to engage Donald to provide marketing services to the partnership on a self-employed basis. He will not be employed by the partnership. They would like to understand what terms they can agree with Donald, regarding how the work is carried out and how he is paid, that would be consistent with self-employment status.

Potential new partner

Arika and Bindi want to grow the business and have invited Louis to join them as a partner. Louis would invest £100,000 in the partnership.

Geoff, a sole practitioner and ATT member, acts for Arika, Bindi and the partnership on all tax matters. RZ LLP acts for Louis and is performing a due diligence exercise prior to Louis becoming a partner in Arika and Bindi's business. RZ LLP has contacted Geoff asking for copies of the partnership's tax returns and supporting working papers.

Continued

Requirements:

- 1) **Calculate each partner’s trading profit allocation for the year ended 30 June 2024 and the year ended 30 June 2025.** (5)
- 2) **Calculate Arika’s total trading profits for 2024/25, stating the date by which she must make the election in relation to the transition profits.** (2)
- 3) **Explain what terms the partnership could agree with Donald about how the work is done and his payment for it, which would be consistent with a self-employment status.** (4)
- 4) **Explain the actions Geoff should take, to comply with ethical guidance, in response to the request from RZ LLP.** (4)

Total (15)