

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	445	1959	2382
Section 2	285	1305	1567
Section 3	309	1378	1656
Section 4	216	1100	1269
Section 5	160	701	844
Section 6	356	1698	2022
Total	1771	8141	9740

Answer-to-Question-__1__

1 - Taxable trade profits

Net loss	(23,850)		
Add: disallowable expenses			
Bike repaid - cost to customer	1,500		
Rent (15,000 x 2/3)	10,000		
Admin - new lease is disallowable	1,500		
Van lease (2,400 x 15%)	360		
Depreciation (depreciation on Finance lease allowable - 16,000 - 4,000)	12,000		
Taxable trade profit	1,510		
Less: CA	(53,900)		
Taxable Profit/loss 2023/24	(52, 390)		

CA

	AIA	CA	
Additions:	53,900		
AIA @ 100%	(53,900)	53,900	

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2) Loss relief

If she wants to claim relief for the loss as soon as possible, she would first set the loss against any current taxable net income for the year.

As this is a new business, she does not have any net trade income to set this loss against. But as she is a new business, losses in the first 4 years if trade can be set against net income from the three years before the year of loss on a FIFO basis.

So this would be for the employment income for years 2020/21, 2021/22, 2023/23. Beginning with 2021/22.

With any remaining loss (unlikely she will have any if we assume her salary was 4,500 all three years) she can carry this forward to set against the gains of future years. As she estimates trade profits of £25,000 and £65,000 for the next two years the loss of £58,000 can be set against these.

3) Class 4 NIC

2024/25

$$25,000 - 12,570 @ 6\% = 746$$

2025/26

$$50,270 - 12,570 @ 6\% = 2,262$$

$$65,000 - 50,270 @ 2\% = 295$$

$$\text{Class 4 NIC: } 2,262 + 295 = 2,577$$

4) Filing penalties

As she was given a filing notice, her return should be due 3 months after this.

An initial penalty of £100 will be levied to her. If the return is over 3 months late, daily penalties of £10 are levied till she pays or for a maximum of 90 days.

If the return were to be 6 months late, she will pay 5% of the tax liability for the 2023/24 year (or £300 if greater).

If the return is 12 months late an additional 5% of the liability is added (or £300 if

greater).

5) Engagement Letter

The engagement letter is given from the outset of engagemnt.

It will help to manage Lotte's expectations of the work being done for her.

It should clearly set out the basis upon which fees are charged, the scope and nature of the assignementand the length of the engagement. There should also be terms and condiitons which may include termination agreements, timelines, confidentiality etc.

Lotte should be asked for her formal agreement.

It provides protection to a memeber and is likely to be important during a dispute.

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

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

Answer-to-Question- 2

1) Cessation

Upon Cessation he will have to deregister the business. When this occurs, VAT on goods still at hand must be accounted for on the final VAT return, unless that VAT is not more than £1,000. This is the total VAT on all chargeable assets.

Output tax (56,000 x 20%)	11,200		
Output tax - fixtures (12,600 x 1/6)	2,100		
Zero rated	-		
VAT due			
Less: input tax on SR	(1,780)		
VAT due	11,520		

2) CGT due

	Other	BADR	
Fixtures and fittings	45,000		
Building		237,165	
Less: Capital loss b/f	(12,000)		
Less: AEA	(3,000)		
	30,000	237,165	
237,165 @ 10% (N1)	13,717		
33,000 @ 20%	6,600		

N1) Disposal of entire business at cessation. Building was used in business for 2 years prior to cessation and is sold within three years of cessation

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

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

Answer-to-Question- 3

1a + b) Trading profit

As he has elected to use the accruals basis, this looks at income receivable over the period and expenses payable relating to the period - not the actual movement of cash paid and received.

Since the year ends on 31 March, we do not need to apportion trading profit to the tax year as it already straddles the year.

Any allowable expenses are deducted from the sales along with capital allowances and reliefs such as SBA before arriving at the trading profits.

This will be taxed along with any other income Yanek has for the year in his self assessment.

Cash basis - TP 2024/25

Taxable sales	85,600		
Less: allowable expenses	(27,900)		
less: car (50% x 14,600)	(7,300)		
Less: SBA	(750)		
Less: CA	(1,314)		
	48,336		

Capital Allowance

	General pool			CA
WDV b/f	7,300			
wda @ 18%	1,314			

2)

He can claim flat rate expenses on this if he elects to . This would cover the cost of buying, running and maintaining the vehicle.

Business miles driven:
 24,000 x 50% = 12,000

10,000 x 45p = 4,500
 2,000 x 25p = 500
 Total: 5,000

He can gain capital allowances on the car.

If he were to buy an electric car this would be eligible for 100% FYA (apportioned to the business portion of the car). The running costs of the car would be added to this.

3) CGT payable

SP (MV due to connected person)	250,00		
Less: cost	(95,000)		
Gain	155,000		
Less: gift relief	120,000		
Gain (130,00 - 95,000)	35,000		
Gain	35,500		
Less: AEA	(3,000)		
CGT	32,000		

Could elect to use gift relief as disposal was made at undervalue and it is agricultural land and buildings. This must be made together with her son.

Tax payable

7,700 @ 10%	770		
25,300 @ 20%	5,460		

Base cost

MV	250,000		
Less: gift relief	(120,000)		
base cost	130,000		

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

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

Answer-to-Question- _4_

CT payable

Prifits	125,690		
Add: disallowable expenses			
Staff costs	20,000		
Pension (allowable if paid in period)	9,000		
Building insurance (18,500 x 10%)	1,850		
Depreciation	18,500		
Replacement of machine	700	CA available	
Loss on disposal	4,000		
Donations	500		
Health and safety (Fines)	15,000		
Entertaining (client(300		
Loan interest	allowable		
Inrwear - overdraft	3,800		
Total	199,340		
Less: income not taxed as trading income			
Less: rental income	(24,000)		
Less: div	(8,300)		
Profits before CA	167,040		
Less: CA	(1,344)		
Add: balancing charge	6,000		
Trade profit	171,696		

TTP	171,696		
Div	8,300		
AP	178,996		
171,696 @ 25%	42,924		
Less: marginal relief (3/200 x 250,000 - 178,996) x (171,696/178,996)	(1,023)		
CT	41,901		

Capital Allowances

	General pool	special rate	CA
WDV b/f	7,200	800	
WDA @18%	(1,296)		1,296
WDA @ 6%	(48)		48
			1,344

Balancing charge:
 100% of sale proceeds = 6,000

Enquiry

If filed on time this would be 12 months from the actual filing date. However since they filed on 20 April this would be 12 months from the next quarter day following late filings. This is 30 April 2026.

Discovery assessments could be raised if

- The loss of tax was brought about carelessly or deliberately by the company
- HMRC have not been provided with sufficient information to allow them to make a correct assessment of the Grinok's profits

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

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

Answer-to-Question- _5_

1) Investor's relief

- He subsided for new ordinary shares
- Liam is not an employee of Mackiem ltf
- The shares are in Makiem ltd which is a trading company and were unlisted when they were issued
- The shares have been held by Liam for three years (1 April 2029 = 28 April 2024).
- We can assume he is within his lifetime limit of £10 million.

The claim must be made by the first anniversary fo 31 January following the tax year the disposal occured. I.E 31 January 2027

2) Chargeable gain

SP	73,000		
Less: cost of part disposal(73,000 + 3,000/ (73,000 + 240,000 + 3000) x 95,000	(22,848)		
Less: legal fees	(5,000)		
Less: indexation allowance (278.1 - 204.4/204.4 x 95,00)	(20,330)		
Gain	25,152		

Total value of land: 73,000 + 240,000 = 313,000

3)

$$3/8 \times 300,000 = 112,500$$

1st: 14 July 2024 - 112,500

2nd: 14 November 2024 - 112,500

Last: 14 December 2024 - 88,000

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

2) Arika TTP

Total profits 2024/25 (49,600 x 9/12)	37,200		
60,000 x 3/12)	15,000		
Transition profits (35,000 x 4/5)	30,000		
Total trading profit	82,200		

The election should be made on or before the first anniversary of the filing date for the tax year to which it relates e.g for her election this would be 31 January 2027.

3) Self employed

To determine whether Donald will have a contract of service and be self employed we must take into consideration several things.

For his work there needs to be a provision of his own equipment e.g you should not be providing a work laptop for him to complete his work.

You should determine a basis of payment, will it be a regular payment or based on what worker he has done. The latter is more in line with self employed usually. If He will usually need to expense and invoice for his work as he will not be paid through PAYE nor tax deducted through this way.

You should determine how integrated into the business he is. The number and length of engagement is important in considering this to, to determine if he is working long term for you or providing these marketing services when you need. This is also regarding the frequency of which work is undertaken.

4) Ethical guidance

Geoff should first seek permission, in the written form, before handing over any documentation to RZ. There is an important need to maintain your clients confidentiality especially if there is a third party who is asking for details about your client.

Geoff should therefore not disclose any of these documentations. Geoff could outline any implications of sending these documents over to his clients before they make a decision so that it is informed.