

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	563	2545	3034
Section 2	450	2116	2504
Section 3	380	1807	2115
Section 4	520	2672	3104
Section 5	387	1810	2154
Section 6	397	1803	2130
Total	2697	12753	15041

Answer-to-Question- 1

Part 1:

Year ended 31 Mar 2024	£		
Net loss	(23,350)		
Add back:			
Services for own use by owner	750		
Rent (one third private use as motorbike commuting is not business travel)	$15,450 \times 1/3 = 5,150$		
Heat, wages, repairs all allowable so no adjustments	0		
Legal costs for new lease are not deductible	1,500		
Interest costs for finance lease are deductible	0		
Depreciation is disallowed except for finance lease	$16,000 - 4,000 = 12,000$		
Less capital allowances W1	(53,900)		
Taxable trade profit/(loss) for 2023/24	(57,850)		

W1 - capital allowances:

	General pool	Special rate pool	Capital allowances
TWDV b/f	0	0	
Additions of equipment for workshop	53,900		
AIA	(53,900)		53,900
	0	0	
WDA 18%	0		
TWDV c/f	0	0	

Part 2

Lotte can claim relief for the trading loss by making an election to use loss against net income in the current or preceding tax year.

Since she was employed in the preceding 2022/23 tax year, her salary of $4,500 \times 12 = 54,000$. She could use her 2023/24 loss to offset this. This is all or nothing so no personal allowance may be used. Claim must be made by first anniversary of 31 January following end of tax year of loss, which would be 31 January 2026.

She could then make an election to use remaining loss against chargeable gains in that same year 2022/23, but since she has no other income or outgoings in any tax year, assumed no chargeable gains. This is also all or nothing so no partial claims.

The remaining loss of $58,000 - 41,430 = 16,570$ could then be used against future profits from the same trade. This election allows partial claims so personal allowance can be utilised.

Part 3

Class 4 national insurance 2024/25 and 2025/26.

58,000 loss set against income in earlier years, so 2024/25 is 25,000 and 2025/26 is 65,000

2024/25			
$25,000 - 12,570 = 12,430$	$12,430 \times 0.06 = 746$ class 4 NIC		
Total class 4 for 2024/25	£746		
2025/26			
$65,000 - 50,270 = 14,730$	$14,730 \times 0.02 = 295$		
$50,270 - 12,570 = 37,700$	$37,700 \times 0.06 = 2,262$		
Total class 4 for 2025/26	$295 + 2,262 = £2,557$		

Part 4

Deadline to file for 2023/24 is later of 31 October 2024 and three months after notice to file, for paper returns.

For online returns deadline is later of 31 January 2025 and three months after notice to file (1 October 2023).

So latest deadline for online return is 31 January 2025.

As it is now start of november 2025, return is just under 9 months late.

Penalties for late filing are 100 initial flat rate penalty.

Then after 3 months daily £10 penalties for 90 days, so 900 total.

Then after 6 months it is 5% of tax liability or £300 if greater. Liability for year is loss making so no tax due for trading income, so 300 applies here instead.

100 + 900 + 300 = £1,000 total penalties for 2023/24 return.

No additional penalties apply as return is not late due to deliberate or deliberate and concealed behaviour, just carelessness.

If remains unfiled after 12 months, then the 300 or 5% penalty will be applied again, to bring total to £1,300.

Part 5

Engagement letter must contain scope of services, who we are acting for, period of engagement, AEOI (including FATCA), fees, limitation of liability, and agreement of letter.

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

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

Answer-to-Question- 2

Part 1

A final VAT return for the final quarter will need to be filed, in which any input VAT reclaimable is cleared off.

Part 2

	Ground floor	First floor	Total
Proceeds	450,000/2 = 225,000	225,000	450,000
Less cost	(87,500)	(175,000/2 = 87,500)	175,000
Less alterations cost	80,000/2 = (40,000)	(40,000)	(80,000)
Unindexed gain	97,500	97,500	195,000
Less indexation allowance (278.1 - 164.4)/164.4 x 175,000 = 0.692 x 175,000 = 121,100	(60,550)	(60,550)	(121,100)
Indexed gain	36,950	36,950	73,900

Ground floor was restaurant for 26 years, new trade cafe for 0.25 years.
 First floor rented out whole time.

So ground floor always used for trade purposes.

Fixtures and fittings:

Proceeds	12,600		
Less cost	(45,000)		
Gain	(32,400)		
Less inde			

Building	73,900		
Current year loss	(32,400)		
Less b/f loss	(12,000)		

CHargeable gain	29,500		
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$29,500 \times 20\% = 5,900$ capital gains tax due on asset disposals

Part 3

Tax and class 4 national insurance is due via payemnts on account on 31 January 2026 and 31 July 2026, both in respect of the tax year 2025/26.

Payments on account will be half of the income tax and class 4 national insurance laibility from the tax year 2024/25. So $6,000 + 1,800 = 7,800$, half of this is 3,900 due for each payment on account.

His employment income will have income tax and class 1 primary national insurance paid via PAYE.

THis means that at the end of the tax year, he may be entitled to a repayment for overpaid tax nad national insurance.

If more than 80% of his tax laibility is collected at source, then he will no longer be required to make payments on account.

If he thinks that the payments on account will be too high, he cna make a claim to reduce them however if the reducion is excessive and results in a balancing payment then interest will be charged on the excessive reduction (charged equally to the two payments on account).

Part 4

Relief for post-cessation receipts is available providing that the expenses would have been deductible had the trade continued.

Damages as a result of poor service would be deductible for trading profits since it is wholly and exclusively for the purposes of the trade, and is not a penalty or fine.

He can elect to have the damages payments be taxed in the year of cessation of the trade (tax year 2024/25) instead of in the actual year paid.

Election for this relief must be made within one year of the 31 January follwing end of tax year for which the payments are made.

Relief only applies for receipts in tax year beginning no later than six years following cessation of trade, so tax year 2031/32.

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

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

Answer-to-Question- 3

Part 1

In 2024/25, his trading profit will be taxed under the cash basis since he has not made an election to use the accruals basis.

Taxable sales	85,600		
Allowable expenses	(27,900)		
Less capital allowances (only on cars for cash basis) W1	(1,752)		
Structures and buildings allowance cannot be claimed when using cash basis, however 33.3 year time limit is not paused	0		
Taxable trading profits for 2024/25	55,948		

W1 capital allowances

	General pool	Private use asset	Capital allowances
TWDV b/f	7,300	14,600	
WDA 18%	(1,314)		1,314
WDA 6%		(876)	876 x 0.5 = 438 since private use by owner
TWDV c/f	5,986	13,724	
Capital allowances			1,752

Part 2

There are no capital allowances on cars so selling price on disposal of new car is irrelevant for tax purposes.

Under the cash basis, two options exist for claiming relief on cars.

Option 1:

Claim actual expenses on car in addition to capital allowances.

This would be apportioned by 50% private use.

So tax relief would be $8,000 \times 3 \text{ years} \times 0.5 = 12,000$ over the three year period, 4,000 per year.

The capital allowances would be either 6% or 18% WDAs (special rate, general pool, respectively) with this amount multiplied by 0.5 before being deducted from trading profits.

If special rate pool (over 50g/km emissions) $35,000 \times 0.06 \times 0.5 = 1,050$ for first year
 $1,050 + 4,000 = 5,050$ for first year

Option 2:

Claim flat rate expenses for business mileage:

First 10,000 business miles at 45p per mile, and then remaining business miles at 25p per mile.

No running costs will be deductible if flat rate deductions are chosen.

Once chosen, cannot change which option is used on that vehicle.

Part 3

For Nora:

Proceeds (deemed to be market value since sale at undervalue to family member)	250,000		
Less cost	(95,000)		
Gain	155,000		
Less gift relief (balancing figure)	(120,000)		
Chargeable gain	$130,000 - 95,000 = 35,000$		
No business asset disposal relief and no other capital disposals			
Income 30,000 so basic rate band is now $37,700 - 30,000 = 7,700$			
Gains at 10% ($7,700 \times 0.1$)	770		
Gains at 20% ($35,000 - 7,700 \times 0.2$)	5,460		
Capital gains tax payable by Nora	£6,230		

Base cost for Yanek:

Market value	250,000		
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Less gift relief	(120,000)		
Revised base cost	130,000		

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

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

Answer-to-Question- 4

Part 1

Accounting profits	125,680		
Add back:			
Staff costs (all salares paid within 9 months of year end so allowable) (pensions of 9,000 unpaid at year end, so not deductied until year paid)	9,000		
Building insurance (portion used for property rental business should be removed from trading profits)	$0.1 \times 50,000 = 5,000$		
Depreciation (accounting figure, not tax deductible)	18,500		
Replacement of broken machine part (allow as not improvment, just a repair)	0		
Loss on disposal (not included in profits, instead capital allowances available so add back the loss here)	4,000		
donation to charity (deduct elsewhere outside trading profits)	500		
Health and saftey, fine is not deductible, training costs allow	15,000		
Entertaining (allow staff, disallow non-staff)	300		
Interest payable (overdraft to fund working cpaital is trading expense)	0		
Interest payable (loan to purchase rental property is non-trade loan relationship)	1,200		
Balacning charge for superdeducted disposal of 100% proceeds (no entry to capital allowance pools)	6,000		
Less:			
Rental income (not part of trade)	(24,000)		
Dividedns (exempt form corporation tax, only used for augmeted profits)	(8,300)		
Less capital allowances (W1)	(1,344)		
Tax adjusted trading profits	151,536		

W1 capital allowances:

	General pool	Special rate pool	Capital allowances
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TWDV b/f	7,200	800	
Small pool WDA no available for companies			
WDA 18%	(1,296)		1,296
WDA 6%		(48)	48
TWDV c/f	5,904	752	
Total capital allowances			1,344

Tax return:

Tax adjusted trading profits	151,536		
Non-trade loan relationships	(1,200)		
UK property business: income 24,000 less insurance (5,000) = 19,000	19,000		
Total profits	169,336		
Less qualifying charitable donations	(500)		
Taxable total profits	168,836		
Plus dividend income	8,300		
Augmented profits	177,136 which is between 50,000 and 250,000 so marginal relief applies		

$$3/200 \times (250,000 - 177,136) \times (168,836/177,136) = 1,042$$

So corporation tax payable for year ended 31 March 2025:

Taxable total profits x 25%	168,836 x 0.25 = 42,209		
Less marginal relief	(1,042)		
CT payable	£41,167		

Part 2

Deadline for HMRC to start an enquiry on a return filed late is 12 months from the quarter day following the actual filing date. So quarter ended 30 June 2026.

Year ended 31 March 2024 and notice to deliver 10 April 2024 so return is due latest of 31 March 2025 and three months after 10 April 2024 (so 10 July 2024). So filing 20 April

2025 is almost 1 month late.

HMRC could raise a discovery assessment after 30 June 2026 if they discover that an amount which should have been assessed has not been assessed.

Also an assessment is or has become insufficient.

Also if relief that has been given has become excessive.

The assessment is to be an amount necessary to make good on loss of tax.

Discovery assessments for periods where returns have been filed may only be made if loss of tax was deliberate or careless on behalf of the company, or if HMRC could not reasonably have expected based on current information to be aware of facts giving rise to the loss of tax.

Time limit on discovery assessment is generally 4 years from end of accounting period (so 31 March 2028), increasing to 6 years for carelessness and 20 years for deliberate actions.

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

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

Answer-to-Question- 5

Part 1

Liam was issued 10 new ordinary shares in April 2019 and has not worked for the company and is not connected to the shareholder.

He sold shares to unconnected individual in 28 April 2024.

He can claimed investors' relief becuase he is unlikely to have used up his lifetime limit of £10 million for investors' relief.

Also Mackiem Ltd is a trading company and is unlisted.

ALso the shares were new ordinary shares issued after 17 March 2016.

Liam is not a director or employee of the company is not connected to any employees or directors of the company.

He also held the shares for 5 years which is more than the 3 year threshold for investors' relief.

The claim should be made by the first anniversary following the tax year where disposal took place, so by 31 January 2027 since disposal occurred in tax year 2024/25.

Part 2

Proceeds	73,000		
Less cost (part disposal: $73,000 / (73,000 + 240,000) \times (95,000 + 3,000)$ incidental costs of acquisition)	(22,856)		
Unindexed gain	50,144		
Less indeaxtion allowance: ($278.1 - 204.4$)/ $204.4 = 0.364$	$0.364 \times (95,000 + 3,000) = (35,672)$		
Indexed gain = chargeable gain	14,472		

Part 3

Instalment	Due date	Amount
1 - 14th day of seventh month of period	14 July 2024	$3/8 \times 300,000$ $= 112,500$
2 - three months later	14 October 2024	112,500
No instalment in this gap as every htree months so won't fit before final instalment		
3 - final instalment is 3 months plus 14 days from end of accounting period	14 December 2024	75,000 (balacning payment to bring liabilty to nil

Compy paid 70,000 on 14 Jul 24, 160,000 on 14 Oct 24, and 70,000 balacning payment on 14 Dec 24.

Interest is incurred from date instalment is due until 9 months and 1 day after end of accountign period (normal due date for corporation tax) which would be 1 June 2025.

This menas that for the first instalment, $112,500 - 70,000 = 42,500$ was underpaid.

This would incur interest payable of $6.25\% \times 42,500 \times 10.5/12 = \text{£}2,324$.

FOr second instalment, $160,000 - 112,500 = 47,500$ was overpaid.

THis would incur interest receivable of $5\% \times 7.5/12 \times 47,500 = \text{£}1,484$.

FOr thrid instalment, balancing paymetn was correctly paid.

Total interest arising is 2,324 payable less 1,484 receivable = 840 payable.

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

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

Answer-to-Question- 6

Part 1

30 June 2024	Total	Arika	Bini
Total profit	120,000		
PSR 1:1	(120,000)	60,000	60,000
Total for YE 30 June 2024	0	60,000	60,000
2 months to 30 Sep 2024	Total	Arika	Bindi
Total profit	100,000 x 2/12 = 16,667		
PSR 1:1	(16,667)	8,334	8,334
Total for 2 months to 30 Sep 2024	0	8,334	8,334
10 months to 30 Jun 2025	Total	Arika	Bindi
Total profit	100,000 - 16,667 = 83,333		
Salary	(10,000 x 10/12 = 8,333)	8,333	0
Interest on capital	(833 + 2,083 = 2,916)	50,000 x 0.05 x 10/12 = 2,083	20,000 x 0.05 x 10/12 = 833
PSR 2:3	(72,084)	72,084 x 2/3 = 48,056	24,028
Total for 10 months to 30 June 2025	0	58,472	24,861
Total for year ended 30 June 2025		66,806	33,195

Part 2

Arika trading profits for 2024/25:
 60,000 x 3/12 = 15,000
 66,806 x 9/12 = 50,105

Transition profits from 2023/24, taxed as much as possible, means 1 year already taxed, so tax remaining 4 years, $35,000 \times 4/5 = 28,000$

So total trading profits for 2024/25 is $15,000 + 50,105 + 28,000 = \text{£}93,105$.

Election must be made by 31 January 2027 (1st anniversary of 31 January following tax year election relates to).

Part 3

In order to ensure that Donald remains self-employed, they could agree that mutuality of obligation means that clear in contract that Derek is not obligated to accept the work given and the partnership is under no obligation to provide work.

Also, it should be made clear in the terms that Donald is allowed to engage assistants to help him with his work as this is personal service (employees would not be allowed to do this).

Additionally, control must be in Donald's hands regarding the deadlines he accepts and what he does on a day to day basis.

Part 4

Written consent must be gained from either Bindi or Arika before any information is given to RZ LLP, in order to maintain confidentiality.

Ideally the letter of engagement should be amended to include working alongside RZ LLP.

Geoff should communicate to partners about the advantages of him working with open communication with Louis advisor for matters relating to the partnership.

Where the partners do not allow certain information to be shared with RZ LLP, Geoff should advise the partners about matters in which RZ LLP and subsequently Louis should be informed.