

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	457	2140	2496
Section 2	600	2755	3299
Section 3	560	2559	3020
Section 4	263	1280	1459
Section 5	391	1841	2139
Section 6	636	3238	3776
Total	2907	13813	16189

(W1) CAs

	£	£	£	£
	AIA	GP	SRP	Allow
TWDV b.f				
Additions				
Equipment	<u>53,900</u>			
	53,900			
AIA @ 100%				(53,900)
Total allowance				(53,900)

2) Claim for Loss relief

As this is Lotte's first year of trading, she is able to claim loss relief against her net income for the previous three years. This will be deducted from her net income before the personal allowance. It will also be done on a first in first out basis, meaning 2020/21 will be relieved first. The claim is all or nothing, meaning she risks wasting her personal allowances as below. This will claim the relief as soon as possible rather than carrying forward to set against future trade profits.

	2020/21	2021/22	2022/23	
		£	£	
Employment income (4,500 x 12)	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>	
Net income	54,000	54,000	54,000	
Trading loss carry back	<u>(54,000)</u>	<u>(4,000)</u>	<u>(Nil)</u>	

Assessable income	Nil	50,000	54,000	

3)Class 4 NICs

Trade losses remain available for class 4 purposes even where they have already been utilised against other income for income tax purposes.

	£	£	£	£
2024/25				
Trade Profits		25,000		
Less Loss b/f		(25,000)		
Assessable income		Nil		
Class 4 Payable 2024/25			Nil	
2025/26				
Trade profits		65,000		
Less loss b/f		(33,000)		
Assessable income		32,000		
12,570 @ 0%	Nil			
19,430 @ 6%	1,166			
Class 4 Payable 2025/26			1,166	

4) Late Filing penalties

The tax return is due the later of 31 January 2025 when filing online or 3 months after the notice to file. In this case, the later is 31 January 2025. She will receive an automatic £100 penalty for filing the return 1 day late. She will then receive penalties of £10 per day for 90 days once the return is more than 3 months late. If ther return is more than 6 months late, she will receive a penalty of £300 or 5% of the outsatnding tax laibility if greater, and then the same £300 penalty when 12 months overdue.

5)Engagement letter

The engagement letter shoudl set out the scope of the expected work and be used to manage and inform client expectations.

It should set out the scope and nature of the assignment. It should set out how fees are to be calculated and charged.

It should explain the processes for complaints and procedures.

SHoudl the scope of work change, a new engagement letter should be issued. And no work should be undertaken until an anagement letter is signed and in place.

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

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

Answer-to-Question- 2

1) Cessation for VAT

Upon cessation of his business, Antoni will be required to de-register from VAT on the basis that he is no longer making taxable supplies. HMRC must be notified of this deregistration within 30 days.

Upon deregistration, Antoni must account for VAT on the final VAT return for all assets forming part of the business on the date of deregistration as if they were supplied in the course of furtherance of the business. This will be a deemed supply for VAT purposes. This will be due on the final VAT return one month and 7 days from the end of the 3 month period to 30 February (1 May).

	£	£	£
Sales VAT (20% x 56,000)		11,200	
VAT on fixtures		<u>2,100</u>	
Output VAT			13,300
Zero rated purchases		Nil	
Standar rated purchases (8,900 x 20%)		(1,780)	
Input VAT			<u>(1,780)</u>
VAT due			11,520

2) CGT

The disposal of the property will be a material disposal for BADR purposes as the building was used in the trade at the date of cessation. It is owned by Antoni for more than 3 years and used in the business for more than 2 years. It will therefore attract BADR be be subject to CGT at 10% on the basis that he ahs not already used his £1m lifetime allowance. The building must be sold within 3 years of cessation whihc applies.

3) Tax and NICs

As an individual with employment income only, Antnoi will be liable to income tax collected through PAYE on his employment income, and Class 1 Primary NIC contributions on his employment income. He may also be liable to Class 1A on any employment benefits he receives.

As he is unlikely to have any balancing payments to make in January 2026, as his income is taxed at source. He may therefore be in a position to make a claim to reduce his POAs for the year as these are likely to result in a repayment. He will also no longer be subject to Class 4 NICs as he is not receiving self-employed income.

As his POAs are collecting estimated Class 4 contributions, HMRC should calculate the annual Maxima to ensure that he does not overpay NICs on the basis that he is subject to both Class 4 and Class 1 Primary.

4) Claim

Antoni will be able to claim the expenses as post-cessation expenses if incurred within 7 years from cessation. This is because legal fees for customer disputes and damages in respect of defective work are allowable post-cessation expenses. These will either be deducted from any post-cessation receipts arising in the same tax year, or deducted from net income during the year if no such receipts are received.

This relief is subject to a cap of the greater of £50,000 or 25% of the adjusted net income if greater. If there is no net income to relieve against, this relief can be extended to capital gains. Otherwise, it will be carried forward against any future post-cessation receipts.

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

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

Answer-to-Question- 3

1) Cash/Accruals Basis

A) Explaining transition

When shifting from the accruals to cash basis, all income and expenses will be recorded in the year in which they occur rather than the year to which they relate.

CAs are only available in respect of cars under the cash basis, so the remaining pool values of all other assets will result in a balancing allowance in 2024/25 which is deducted from trading income in the year. The SBAs are also not allowable under the cash basis, so these will simply cease in 2024/25, and any SBAs already claimed will be deducted from the base cost of the asset upon disposal. Capital allowances in respect of cars will continue as usual.

An adjustment will also need to be made to ensure that no income or expenses are taken into account twice during the transition.

B) Calculations

Y/e 31 Mar 2025	£	£	£	£
Profit per acc (85,600 - 27,900)		<u>57,700</u>		
Less:				
Balancing allowance (GP)	(7,300)			
Less: CAs Car	(438)			
SBA:	<u>Nil</u>			
		<u>(7,738)</u>		
Taxable trading profits		49,962		

(W1) CAs on Car		Private Use	50% PU	Allow
TWDV b/f		<u>14,600</u>		
WD allowance @ 6%		876	(438)	(438)

2) Car Treatments:

Yanek could claim capital allowances on the car as before based on the purchase price, which would be placed into a private use column with WD allowance of either 18% or 6% depending on whether CO2 emissions exceed 50g/km. Only the business proportion would be deductible so a 50% disallowance would occur. Upon disposal this will result in a balancing allowance on the proportion not yet depreciated. This balancing allowance must also be adjusted for private use. Relief will also be available for the running costs, apportioned to business use.

Alternatively, Yanek could claim flat rate expenses at a rate of 45p per mile for the first 10,000 business miles, and 25p for all business miles thereafter. This flat rate covers the running costs of the car also.

As can be seen below, a CA claim will be more beneficial in 24/25, and will result in greater deductions from the 3 years to disposal. As the WD allowance will not depreciate below £20,000 before the car is sold in three years time, it will be more beneficial in the long run to claim CAs, as the balancing charge will increase the total allowances claimed in the year of disposal (£31,944 - 20,000 = 11,944), and no balancing allowance will be available in respect of the flat rate claim.

(w1)

	£	£	£	£
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Flat rate:				
Business miles (24,000 x 50%)	12,000			
10,000 @ 45p		4,500		
2,000 @ 25 p		500		
Total claim per year			5,000	
Total flat arte 3 year				15,000
CAs 24/25				
WD allowance (35,000 x 6% x 50%)	1,050			
Running costs @ 50%	4,000			
Total claim 24/25			5,050	
CAs 25/26				
WD Allowance (33,950 x 6% x 50%)	1,019			
Running costs @ 50%	4,000			
Total claim 25/25			5,019	
CAs 26/27				
WD Allwoance (32,932 x 6% x 50%)	988			
Running costs @ 50%	4,000			
Total Claim			4,988	
Total 3 years				15,057

3) Gift of Building

	£	£	£
Proceeds @ MV		250,000	
Less base cost		<u>(95,000)</u>	
Gain		155,000	

Less rollover relief (155,000 - 35,000)		<u>(120,000)</u>	
Gain immediately chargeable (95,000 - 130,000)			35,000
Base cost for Yanek (250,000 - 120,000)			130,000
CGT Laibility:			
7,700 @ 10%		770	
27,300 @ 20%		5,460	
CGT payable			6,230

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

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

Answer-to-Question- 4

1) Corp Tax payable

Y/e 31 Mar 2025	£	£	£	£
Profit per accounts		125,680		
Add back:				
Pension contributions	9,000			
Rental insurance	5,000			
Depreciation	18,500			
Replacement part (revenue)	Nil			
Loss on disposal (CAs claimed)	4,000			
Charity donation	500			
Fine	15,000			
Client entertaining	300			
Workshop loan	<u>1,200</u>			
		<u>53,500</u>		
		179,180		
Less: rental income:		(24,000)		
Less dividends		<u>(8,300)</u>		
trading income before CAs		146,880		
Less: CAs		(2,096)		
Balacning charge Cutter		<u>6,000</u>		
Tax adjusted trade profits			150,784	
Rental income (24,000 - 5,000)			19,000	
NTLR loss			<u>(1,200)</u>	
			168,584	
Less QCDs			(500)	
TTP			168,084	
Corp tax @ 25%			42,021	
Less Marginal relief (W2)			<u>(1,052)</u>	
Corp tax payable				40,969

2) Enquiry date

The corp tax return will be due 12 months from the end of the accountin period - i.e. 31 March 2026. Provided teh return is filed before this date, HMRC have 12 months from the date the retun is submitted to raise an enquiry.

If the return was filed late, this period would be extended to 12 months form the quater date following the date of submission.

If the retrun is amended, this will also increase the enquiry window, to 12 months from the quater date fo submission. However, if the enquiry notice is given after the normal enquiry window, the enquiry will be limited to matters relating to the amendment.

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

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

Answer-to-Question- 5

1) Investors Relief

Investors relief is available as the following conditions are met:

- The shares are subscribed for on issue in cash.
- The company is an unquoted trading company.
- Shares were issued after 17 March 2016
- Liam is not a relevant employee as he has never worked for the company. he is also not a connected person.
- Liam has not used any of his £10m lifetime allowance for investors relief.
- There is no maximum or minimum holding for the purposes of investors relief.
- Liam holds the shares for a continuous period of more than 3 years.

The claim for investors relief must be made by the first anniversary of 31 January following the end of the tax year - i.e. 31 January 2027.

2) Sale of Land

	£	£	£
Part Disposal of Land			
Proceeds:	73,000		
Less: sale costs	(5,000)		
Net proceeds		68,000	
Less Base cost:			
$(95,000 + 3,000) \times (73,000 / 240,000 + 73,000)$		(22,856)	
Unindexed gain		45,144	
Less Indexation allowance (W1)		(15,386)	
Chargeable gain			29,758
(w1) indexation allowance			

(278.1-204.4)/204.4	0.157		
98,000 x 0.157	15,386		

3) Payment of Corp Tax

8 m/e 31 Aug 2024				
	Due date	Due £		
1st Instalment (300,000 x 3/8)	14 Jul 24	112,500		
2nd instalment (300,000 x 3/8)	14 Oct 24	112,500		
Final instalment (Unpaid balance)	14 Dec 24	75,000		

Interest Charged	Paid	Cumulative	Due	Cumulative	Over-due/paid
14 Jul 24	70,000	70,000	112,500	112,500	42,500
14 Oct 24	160,000	230,000	112,500	225,000	(5,000)
14 Dec 24	70,000	300,000	75,000	300,000	Nil
Interest summary	Amount £	Debit/credit	Annual Rate	Period	Total
14 Jul to 14 Oct	42,500	Debit	6.25%	(3/12)	664
14 Oct 24 - 14 Dec 24	(5,000)	Credit	5%	2/(12)	(42)
Total interest arising					622

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Interest is charged at rates of 6.25% on any underpayments and is charge from the due date of the instalment. Similarly, overpayments attract interest at a rate of 5% on the instalments from the due date based on the cumilative over/underpayment at that date. Interest rates are icnreased to the normal HMRC rates if any payment remain outstanding at the due date of the final instalment. Reduced rates operate for the instalments themselves until this date. The interest demand will be raise within 30 days of the due date, and if this is not paid then interest will be charged on the interest.

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

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

Answer-to-Question- 6

1) Profit allocations

30 Jun 2024	£	Split	£	£
Profits for the year	120,000		Arika	Bindi
1 Jul to 30 Sep (3/12)	<u>(30,000)</u>	50:50	15,000	15,000
	90,000			
Arika Salary	(10,000)	Arika	10,000	
Airka Capital (5% x 50,000 x 9/12)	(1,875)	Arika	1,875	
Bindi Capital (5% x 20,000 x 9/12)	<u>(750)</u>	Bindi		750
30 Sep to 30 Jun	77,375	2A:3B	<u>30,950</u>	<u>46,425</u>
Final profit split			57,825	62,175
30 Jun 2025	£	Split	£	£
Profit for the year	100,000		Arika	Bindi
Arika Salary	(10,000)	Arika	10,000	
Airka Capital (5% x 50,000)	(2,500)	Arika	2,500	
Bindi Capital (5% x 20,000)	<u>(1,000)</u>	Bindi		1,000
1 Jul to 30 Jun	86,500	2A:3B	<u>34,600</u>	<u>51,900</u>
Total profit split			47,100	52,900

2) Arika Trading Profits

	£	£ £
Profits Y/e 30 June 2024		

(57,825 x 3/12)	14,456	
Profits Y/e 30 June 2025		
(47,100 x 9/12)	<u>35,325</u>	
		49,781
Transitions profits		
35,000 x 80%	<u>28,000</u>	
		<u>28,000</u>
Profits assessable 24/25		77,781

The election must be made on or before the first anniversary of the filing date for the 2024/25 return - i.e. 31 January 2027.

3) Marketing Services

Case law indicates four factors are key in determining self-employed status:

- Mutuality of obligation: Donald should not have any obligation to provide labour to the partnership, nor should the partnership be obliged to request his labour. This lack of obligation indicates a self-employed status whereby Donald is free to choose what work he performs and does not have an ongoing employment relationship with the partnership.

- Personal Service: If Donald is free to employ others to perform the services the partnership requests, then this is indicative of a self-employment relationship. This option is not typically available to employees.

- Control: Donald should have plenty of control over how and when he performs his labour. This is typical of self-employment whereby labour is exercised freely at his discretion.

- Degree of integration: Donald should not be allowed to become too integrated into the day-to-day workings of the partnership. His services should generally be performed elsewhere outside of the partnership office and buildings. This separation indicates a self-employed relationship.

- Payment: Donald should have the opportunity to profit from his engagements whilst also facing the risk of a loss. This financial risk element is not typically present in

employment relationships. Payment should also not be made through payroll, but rather made directly to an account of Donald's choosing (potentially a business account).

Other factors such as the provision of one's own equipment, and financial risks taken by the individual are key indicators of self-employed status. None of the above factors are decisive, however, the engagement should set out the above indicators such that the balance indicates a self-employed status.

4) Ethical Guidance:

Where a request is made for information about a client from a separate third party, this risks client confidentiality. The following steps should be taken in this case:

- They should request the client's permission to disclose any information to RZ LLP, from a representative of the partnership under the engagement letter. The request in this case is unlikely to be legally binding, so there is no basis for disclosing without the client's permission.
- If consent is given, the agent should seek to obtain the client's confirmation that they will not attempt to hold the member responsible for any unintended consequence of providing the partnership returns to RZ LLP.
- When providing the returns, include clear advice that the returns were prepared for the partnership, and that no obligation or duty of care is held towards RZ LLP and their use of the returns.
- Highlight any disclaimers included in the original partnership returns.
- Communicate clearly to RZ LLP the terms under which the returns are being provided, and that the firm accepts no liability in respect of their use of the returns.

