

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

MAY 2026

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.

Important Information – Please read carefully

- An Excel spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, please note that all Excel calculations and workings that you wish to include as part of your answer **must** be copied into the word processor answer box, otherwise they will not be marked.

1. Ben has run a VAT registered sole trader business servicing electrical equipment for 12 years and has always used the accruals basis of accounting. The business is run from a rented unit on an industrial park.

He prepares accounts to 30 June each year and recent taxable trade profits are:

	<u>Year ended 30 June 2024</u>	<u>Year ended 30 June 2025</u>
	£	£
Taxable trade profits	56,000	12,400

In 2023/24, taxable trading profits before transition profits were £64,000. Transition profits arising in 2023/24 were £8,200. No election has been made to accelerate the amount of transition profits charged to tax.

During the year ended 30 June 2025, Ben's largest customer moved to a new supplier.

Ben identified a potential new business stream and on 10 July 2025 purchased a new machine for £28,000 (plus VAT at 20%) that would allow him to test and service additional equipment.

Despite Ben's best efforts, he was unable to find new customers and on 28 February 2026, he ceased trading.

The following information has been extracted from Ben's accounting software for the eight months ended 28 February 2026:

	£	£	<u>Notes</u>
Sales		14,690	
Costs:			
Depreciation	5,780		
Advertising and marketing	2,212		1)
Rent and Rates	15,000		
Utilities	2,400		
Site clearance	3,680		2)
Legal and accounting	400		3)
Postage and couriers	1,900		
Insurance	1,545		4)
Motor expenses	340		5)
Wages and tax	<u>12,300</u>		6)
Total costs		<u>(45,557)</u>	
Profit/(loss)		<u>(30,867)</u>	

Notes

- 1) Advertising and marketing included £1,600 for leaflet design and printing and £612 spent on taking existing customers out to lunch.
- 2) The site clearance costs included repairs to the rented unit and fees for a removal company to dispose of all fixtures and furnishings in the unit.
- 3) Legal and accounting fees included £300 for the completion of the business accounts and £100 for Ben's personal tax return.
- 4) Insurance includes business insurance of £925 and car insurance of £620. The car insurance relates to an electric car which has 20% personal use.
- 5) Motor expenses relate to the MOT and charging of the electric car.
- 6) Wages and tax is Ben's monthly drawings of £1,200 and a payment of £2,700 paid to HMRC for Ben's personal tax.

Continued

Continuation

- 7) The following information is available in relation to capital allowances:
- a) The tax written down value brought forward on the general pool on 1 July 2025 was £10,800.
 - b) The only addition to plant and machinery was the testing machine purchased on 10 July 2025.
 - c) The electric car was purchased on 18 June 2023. This was kept by Ben once the trade ceased. The car was purchased for £18,380 plus VAT and a first-year allowance was claimed in the year of acquisition. The market value of the car on 28 February 2026 was £9,200.
 - d) Ben stored the new testing machine in his garage until he found a buyer who paid £20,000 excluding VAT in May 2026. The price paid reflected the market value of the machine at the date of cessation.
 - e) All other assets were scrapped as part of the clearance of the unit as they had been held for many years and had no re-sale value.

Ben's only other source of income is property income of £15,000 each year.

Requirements:

- 1) **Calculate Ben's tax-adjusted trading loss for the eight months ended 28 February 2026.** (7)
 - 2) **Calculate Ben's taxable income for each of 2023/24, 2024/25 and 2025/26 if Ben makes a claim for terminal loss relief.** (8)
 - 3) **Explain how Ben can reduce his payments on account for 2025/26.** (4)
 - 4) **Explain the VAT implications of Ben ceasing to trade.** (4)
- Total (23)

2. Teri is 55 years old and in 2025/26 receives a salary of £18,000 for their part-time work in marketing.

Teri started teaching karate from their home in May 2025. Total receipts from karate students during 2025/26 were £16,200. Teri only accepted payments in cash. The costs of providing the lessons total £320 for insurance and certification.

Teri was aware of the need to notify HMRC of starting the karate business but decided that they wanted to see if it was going to be a success before doing so.

Teri has a passion for classic cars and enjoys restoring them, attending car shows and meeting other car enthusiasts. They bought their first classic car when they were 24 years old. Teri spent several months restoring the car and once it was complete, starting to save money to purchase another car. They continued with this process and by 6 April 2022, had built up a collection of 14 restored classic cars.

Over the last few years Teri has started to sell some of the cars.

- a) 2022/23 – Teri took one car to an exhibition and was approached by a collector who offered more money than Teri thought the car was worth. Teri had not intended to sell the car but accepted the offer.
- b) 2023/24 – the same collector visited Teri's home to look at the car collection and bought another car.

Continued

Continuation

- c) 2025/26 – Teri sold two of the remaining 12 classic cars on a specialist online marketplace as they needed to raise cash for some building work at their house.

Each car was sold for significantly more than its original purchase price and restoration cost.

Requirements:

- 1) **Explain whether Teri's disposal of the two cars in 2025/26 is subject to tax.** (6)
- 2) **Assuming that the disposal of the classic cars is NOT deemed to be trading:**
 - a) **Calculate Teri's taxable income for 2025/26, assuming all beneficial claims are made.** (2)
 - b) **Calculate Teri's National Insurance on trading income for 2025/26 and state the payment deadline for this.** (2)
- 3) **Assuming that the disposal of the classic cars is NOT deemed to be trading, explain the implications if Teri does not notify HMRC of starting to trade on time and one of their karate students tips off HMRC about the business.** (5)

Total (15)

3. Darren is 50 years old and is in business as a sole trader.

In 2025/26, his only income was trading income of £27,000.

During 2025/26 the following transactions took place:

- a) Darren gifted a building used in his sole trader business to his wife Lindsay. The building had cost £140,000 in January 2005 and was valued at £292,000 when transferred to Lindsay.
- b) Darren gifted his 10% shareholding in Hyxvel Ltd, an unquoted trading company, to his brother, David. He subscribed for the shares in September 2019 for £8,000. He has never been a director or employee of Hyxvel Ltd.

At the date of transfer to David, the market value of the shares was £38,300. The company's only chargeable asset is an office block which has three floors. The ground floor is used as Hyxvel Ltd's offices and the remaining two floors are rented out to third parties.

- c) To fund an expansion of his business, Darren sold 10 Bitcoin on 4 May 2025. He had the following transactions in Bitcoin:

<u>Date</u>	<u>Description</u>
4 January 2018	Purchased 30 Bitcoin for £339,120
1 September 2021	Sold eight Bitcoin for £273,984
12 October 2023	Purchased 12 Bitcoin for £267,468
4 May 2025	Sold 10 Bitcoin for £730,080
7 May 2025	Purchased four Bitcoin for £285,160

At 6 April 2025 Darren had capital losses brought forward of £1,000.

Continued

Continuation

Requirements:

Calculate, with supporting explanations:

- 1) **The chargeable gains or allowable losses arising on each of the disposals made by Darren in 2025/26.** (10)
- 2) **Darren's Capital Gains Tax liability for 2025/26.** (5)

Assume all claims and elections are made to minimise Darren's Capital Gains Tax liability.

Total (15)

4. Chalt Ltd has traded for many years as a manufacturer of outdoor equipment. Accounts have been prepared to 31 March each year. The profit before tax in the accounts for the year ended 31 March 2026 was £185,000, which includes dividends received from a 10% shareholding in an unrelated company of £3,400.

The following have been deducted in the calculation of the profit before tax:

- 1) Staff costs including bonuses of £17,000 paid on 30 April 2026 and pension contributions of £2,400 paid on 15 April 2026.
- 2) Depreciation of £34,000, including £7,600 in respect of vans acquired on finance leases.
- 3) Interest costs of £6,400 for interest on finance lease agreements for four vans. The CO₂ emissions of the vans were 165 g/km.
- 4) Loss on sale of fixed assets of £8,600:
 - a) On 30 June 2025, Chalt Ltd sold machinery which had a net book value of £15,000. This resulted in a loss on sale of £1,500. No first-year allowance had been claimed on the machinery.
 - b) On 15 September 2025, Chalt Ltd took a heating system out of service in one of its buildings. The heating system had a net book value of £10,000 and Chalt Ltd received scrap proceeds of £2,900. The loss on sale recorded in the accounts was £7,100. The system had been bought on 17 May 2021 and the 50% first year allowance had been claimed.

The tax written down values on the general pool and the special rate pool at 1 April 2025 were £26,000 and £17,000 respectively.

Warehouse

Chalt Ltd uses a warehouse in its trade. The building had initially been constructed in 2012 at a cost of £175,000 and then extended on 30 November 2019 at a cost of £56,000. Chalt Ltd claims structures and buildings allowance.

Chalt Ltd has plans to sell its warehouse on 30 June 2026, and reinvest at least some of the proceeds in a new freehold warehouse.

Requirements:

- 1) **Calculate the Corporation Tax liability for Chalt Ltd for the year ended 31 March 2026.** (10)
- 2) **Explain the Corporation Tax implications of the disposal of the warehouse and any reliefs that Chalt Ltd can claim.** (5)

Total (15)

5. You work for a firm of tax advisers. The firm has received an email from Luca and Raul, the two directors and shareholders of Dout Ltd. You have also seen in the local news that Dout Ltd has been set up in a prestige location in the town and will be a direct competitor to one of your firm's existing clients, Eben Ltd. Dout Ltd has invested heavily in advertising and sponsoring local events.

In the email, Luca and Raul explained the following:

Incorporation

Dout Ltd was incorporated on 1 January 2023 and the directors started to work for the company immediately. Trading started on 1 April 2023 and on that date, the directors notified HMRC of Dout Ltd's liability to Corporation Tax. They decided that the accounting year would end on 31 March each year.

HMRC notices to file

HMRC issued notices to file Corporation Tax returns as follows:

<u>Year end</u>	<u>Date of issue</u>
31 March 2024	29 April 2024
31 March 2025	28 April 2025

Filing and payment

No Corporation Tax return has been filed for the year ended 31 March 2024. Draft accounts for this period indicate an estimated Corporation Tax liability of £18,750.

The company made monthly payments on account of £2,000 from July 2025 to December 2025 but has made no further payments. There has been no contact with HMRC regarding the outstanding return or payments.

For the year ended 31 March 2025, a Corporation Tax return was submitted on 15 March 2026, using provisional figures. The Corporation Tax for that year was paid in December 2025. The directors now believe the profits in the submitted return were understated.

Luca and Raul have requested an explanation of the penalties and interest that may be due.

The partner, James, has asked you to help with the client acceptance procedures and to draft a proposed reply to Luca and Raul's queries.

Requirements:

- 1) **Draft a memorandum to James setting out the client acceptance procedures and risk considerations according to the Professional Rules and Practice Guidelines that are relevant to Dout Ltd.** (5)
- 2) **Draft an email to Luca and Raul in which you explain:**
 - a) **The due dates for filing and payment;**
 - b) **The potential penalties for Dout Ltd; and**
 - c) **The interest for which Dout Ltd may be liable. Calculations are not required.**

Assume the date is 6 May 2026. (10)

Total (15)

6. Flick Ltd has traded for many years as a furniture manufacturer preparing accounts to 31 December each year. On 31 December 2025, the company accounts include:

	£	£
Freehold building: factory (cost £150,000 June 2018)		125,000
Plant and machinery		86,000

Hugo has been the only director and shareholder of Flick Ltd since its incorporation on 3 March 2000. The share capital is 100 £1 ordinary shares.

Glack Ltd has approached Hugo with an offer to take over the business on 31 December 2026 and has suggested two alternative methods for this:

Alternative 1

Glack Ltd will pay a premium of £40,000 for a 25-year lease on the factory. The freehold reversion is valued at £160,000. It will also buy the plant and machinery for around £75,000. None of the plant will be sold for more than cost.

Alternative 2

Glack Ltd will buy Hugo's shares at the market value at the date of the sale.

Office building

Flick Ltd also uses an office building in its trade. Hugo owns the office building. He bought the building in September 2018 and immediately started to rent it to Flick Ltd. He currently charges a rent of £25,000 per annum. A similar office building would be available to rent at £30,000. Glack Ltd doesn't want to take over the office building. So the two options available to Hugo are:

- a) To sell the office building on 31 December 2026; or
- b) To rent the office building to a new tenant and sell in two years' time.

Requirements:

- 1) Calculate the chargeable gain on the lease, under Alternative 1. (3)**
- 2) Explain the Corporation Tax implications for Flick Ltd and the Capital Gains Tax implications for Hugo of the two alternatives for the sale of the business. (7)**
- 3) Assuming Hugo sells the shares in Flick Ltd (Alternative 2), explain the Capital Gains Tax implications for Hugo of the two options relating to the office building. (5)**

Total (15)