

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

July 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.

1. Saul started trading as a plumber on 1 June 2025. He has not yet registered for VAT. He has one bank account that he has used for both business and private purposes. He has downloaded a list of all the transactions from his bank account for the 10 months ended 31 March 2026:

	<u>Notes</u>	£
<u>Receipts</u>		
Customers		46,000
Sale of motorcycle	1	<u>6,000</u>
		<u>52,000</u>
<u>Payments</u>		
Plumbing supplies		24,000
Motor expenses	2	5,300
Wages	3	8,000
Storage unit costs	4	<u>3,750</u>
		<u>41,050</u>

Notes

- 1) On 1 September 2025, Saul sold his motorcycle which he had bought five years ago. He estimates that the motorcycle was worth £6,000 on 1 June 2025. He had used the motorcycle to visit customers. Between 1 June and 1 September, Saul travelled a total of 800 miles on the motorcycle, of which 400 miles were for business travel.
- 2) Motor expenses relate to Saul’s motorbike, his car and his wife’s car. He is unable to allocate total motor expenses between the vehicles. He bought his car eight years ago for £24,000. The current market value of his car is £3,000. Saul believes the car had a similar value to its current market value, when he started his business. Between 1 June 2025 and 31 March 2026, he travelled 15,600 miles in total of which 6,200 were on business. His wife’s car is not used for business purposes.
- 3) Wages are transfers made to a joint account with his wife to cover household costs. Saul used one room of his house out of eight for business purposes. He estimates his business use of gas and electricity was 10%. His household costs, paid from the joint account, for the period from 1 June 2025 to 31 March 2026 were as follows:

	£
Council tax	1,200
Insurance	300
Mortgage interest	<u>2,400</u>
	3,900
Gas and electricity (of which 10% is business)	<u>900</u>
	<u>4,800</u>

Saul works from home for 30 hours per month.

- 4) Saul rents a storage unit. Two thirds of the unit is used for storing plumbing supplies. The remaining third for storing household items.

Replacement of car

Saul will sell his car and replace it with either a van or a car on 31 March 2027. He has decided he can afford to spend £24,000 on either vehicle. He would pay cash from his savings. He estimates the total running costs will be the same for each vehicle and they will both have CO₂ emissions of 180 g/km and be used 70% for business purposes. He will sell the van or car after three years for £15,000. He estimates that his taxable trading profits for the next three years will be £25,000 pa.

Saul is aware that the timing of relief for cars and vans may be different under the cash basis but he is not sure of the impact of the different treatments.

Saul has no other taxable income or outgoings.

VAT on vehicle

Saul thinks that he may exceed the VAT registration threshold by the time he buys the car or van. He has asked about the VAT rules for the purchase of the vehicle, assuming 30% private use.

Requirements:

- 1) Calculate Saul’s taxable trading profit for the 10 months ended 31 March 2026. (6)
- 2) Explain and calculate the net cost of the van and the car and determine which is the better option for Saul. For this part, ignore VAT and running costs. Assume tax and National Insurance rates remain unchanged. (7)
- 3) Explain whether any input VAT can be reclaimed on the purchase of a car or a van and explain the documents required for a valid reclaim. (4)

Total (17)

2. Jazu Ltd has traded for many years manufacturing sportswear from its factory. The trade has suffered recently as cheaper competitors have entered the market so the company ceased trading on 30 September 2025.

You have been provided with the following draft Profit and Loss account for the year ended 31 December 2025:

	<u>Notes</u>	£	£
Turnover			680,000
Cost of sales			<u>(582,300)</u>
			97,700
Other income	1		36,000
<u>Expenses</u>			
Distribution costs		17,000	
Premises expenses	2	34,000	
Wages and salaries	3	196,000	
Legal and professional costs	4	16,000	
Administrative costs	5	35,000	
Depreciation		<u>13,000</u>	(311,000)
Profit on disposal of assets	6		<u>133,700</u>
Loss for the year			<u>(43,600)</u>

Notes

- 1) For the last 10 years, Jazu Ltd has rented half of its factory to Kojar Ltd at a rent of £36,000 a year.
- 2) The premises costs are the total expenses incurred for the factory during the year. Of the total amount, £15,800 relates specifically to the tenant, Kojar Ltd. The remaining costs were incurred evenly throughout the year.
- 3) Wages and salaries include £48,000 redundancy costs. Of the £48,000, £8,000 relates to statutory redundancy costs.

4) Legal and professional costs are:

	£
Debt collection costs	6,800
Accountancy costs	4,900
Costs re sale of building	3,300
Auction costs for sale of plant	1,000
	<u>16,000</u>

5) Administrative costs include: £1,250 for a dinner held in September 2025 for 10 key customers and 15 staff members, as well as a qualifying charitable donation of £600.

6) The profit on disposal of fixed assets is analysed as follows:

	<u>Note</u>	<u>Net book value</u>	<u>Proceeds</u>	<u>Profit/(loss)</u>
		£	£	£
Factory	(a)	300,300	450,000	149,700
Plant and machinery	(b)	<u>64,000</u>	<u>48,000</u>	<u>(16,000)</u>
		<u>364,300</u>	<u>498,000</u>	<u>133,700</u>

(a) Once trading ceased, Jazu Ltd continued to rent out half the factory to Kojar Ltd until 31 December 2025, when the whole factory was sold to Albert, a director of Jazu Ltd for its market value of £450,000. The building cost £330,000 in June 2018.

(b) The plant and machinery used by Jazu Ltd was all sold at auction on 31 October 2025. The £48,000 is the gross sale proceeds with auction costs included in legal and professional costs (note 4). None of the assets were sold for more than cost. The balance on the general pool at 1 January 2025 was £15,400.

Results for earlier years

The trading and rental profits for earlier years were as follows:

<u>Year ended</u>	<u>Trading profit</u>	<u>Rental profit</u>
	£	£
31 December 2024	25,000	17,000
31 December 2023	35,000	18,000
31 December 2022	20,000	12,000

Jazu Ltd made a qualifying charitable donation December each year of £600.

Jazu Ltd had no other income or expenditure and had no capital losses brought forward.

Requirements:

- 1) Calculate Jazu Ltd’s taxable total profits for all accounting periods in the four years ended 31 December 2025 showing how any losses are relieved. Ignore VAT. (16)
- 2) Explain the Corporation Tax filing requirements for Jazu Ltd for accounting period(s) in the 12 months ended 31 December 2025. (2)

Total (18)

3. Payrop Ltd was incorporated in January 2019 by Akshar and Ulrika, who are also the only directors of the company. The company has been very successfully manufacturing microchips and Talass plc, an unconnected company, has recently made an offer to buy all the shares of Payrop Ltd for £5 million in total. The sale is expected to take place in September 2026.

The current share capital is held as follows:

	<u>Note</u>	<u>£1 Ordinary shares</u>
		<u>Number</u>
Akshar	1	500
Ulrika	2	400
Sandi	3	100
Alex	4	<u>250</u>
Total		<u>1,250</u>

Notes

- 1) Akshar subscribed for 500 shares at par when Payrop Ltd was incorporated. In 2019, he made a gain of £500,000 on disposal of unconnected shares and claimed entrepreneurs' relief.
- 2) Ulrika also subscribed for 500 shares at par on incorporation. In March 2021, she gifted 100 shares to her daughter Sandi when she became 21. At the date of the gift, the 100 shares were valued at £60,000. Ulrika and Sandi made a joint claim for gift relief on the gain of £59,900.
- 3) Sandi is neither an employee or director of Payrop Ltd. She is a basic rate taxpayer from her full-time employment as a teacher.
- 4) Alex subscribed for 50 shares in March 2020. She then subscribed for 200 shares in June 2024. The base cost of the March 2020 holding is £47,000 and of the June 2024 holding £188,000. She is not an employee of the company, nor is she connected to any employee or director.

Talass plc

Talass plc has sent to Payrop Ltd a due diligence questionnaire asking for information about the company's tax history. The directors have asked you to complete the questionnaire for the company.

Requirements:

- 1) **Draft an email to Akshar and Ulrika explaining, with calculations, the Capital Gains Tax position for each of the shareholders. You should assume that they have no Capital Gains Tax losses brought forward and make no other disposals in 2026/27 and that tax rules, rates and reliefs remain unchanged.** (11)
- 2) **Explain the guidance in the Professional Rules and Practice Guidelines (PRPG) in relation to Talass plc's request to provide information on Payrop Ltd's tax history.** (4)

Total (15)

4. Kaleb is a VAT registered sole trader, manufacturing products in a factory and has 35 employees. He prepares accounts to 31 December each year using the accruals method.

Capital allowances

On 1 January 2025, the tax written down value on the special rate pool was £2,100. There was no brought forward balance on the general pool.

The following transactions took place in the year ended 31 December 2025. All amounts include VAT at standard rate.

Continuation

<u>Item</u>	<u>Date</u>	<u>Transaction</u>
1	13 February 2025	Purchased a waste disposal system for the factory for £14,000.
2	30 April 2025	Installed new factory machinery costing £165,200. An additional £2,800 was paid to strengthen the factory floor in preparation for the installation.
3	30 April 2025	Sold old machinery for £57,600. It had originally cost £98,000 three years ago and an Annual Investment Allowance (AIA) was claimed on the full amount.
4	18 August 2025	Entered into a three-year lease agreement for an electric car with no option to purchase at the end of the lease. The lease payments were £500 per month. The car's list price is £32,000. It has 20% personal use by the Production Manager.
5	1 September 2025	Acquired an electric car under a hire purchase agreement. A £4,000 deposit was paid on 1 September when the car was brought into use, followed by monthly payments of £1,100 for 36 months. The capital cost of the car is £38,000 with 20% personal use by the Warehouse Manager.
6	8 September 2025	Bought a new car for Kaleb for £45,000. It has CO ₂ emissions of 160g/km and has 50% personal use.
7	10 September 2025	Sold a car for £1,900. The car has CO ₂ emissions of 240g/km and had been included in the special rate pool. It had 20% personal use by the Production Manager.

Cleaning services

Kaleb has outsourced the cleaning of the factory to Gary for several years. There is no written contract between Gary and Kaleb.

Each month Gary invoices Kaleb £1,200 for cleaning services. Gary is required to clean the factory on weekday evenings after the factory has closed. He spends weekday afternoons cleaning for his own regular residential customers. Gary provides his own cleaning equipment. When Gary is sick or on holiday, Kaleb uses an agency to provide cover and Gary is not paid.

Kaleb carries out an inspection of Gary's work when he arrives at the factory each morning. If it is not up to standard, Gary is required to correct the work prior to the factory opening that morning. Gary is not paid for his time spent doing this.

Gary is not registered for VAT and includes his income from the cleaning work as self-employment income in his annual tax return.

Requirements:

- 1) Calculate Kaleb's capital allowances on plant and machinery for the year ended 31 December 2025, explaining your treatment of each item 1 to 7 above. (12)
- 2) Discuss the factors used to determine whether Gary is self-employed or is Kaleb's employee. (4)
- 3) Explain the tax implications for Kaleb if Gary is deemed to be an employee. (2)
- Total (18)

5. Noyla Ltd prepares accounts to 31 December each year.

On 1 January 2014, Noyla Ltd purchased a single floor factory for £248,000. Stamp Duty Land Tax and legal fees on acquisition totalled £5,200.

The factory was let out to tenants until 1 October 2020.

Between 1 October 2020 and 31 December 2020, a second-floor extension was added to the factory, costing £186,000. Additionally, Noyla Ltd spent £3,000 on planning permission and £2,500 for design costs.

From 1 January 2021, Noyla Ltd started to use both floors of the factory for trade purposes.

Structures and buildings allowance was claimed on the extension costs.

The factory was sold on 31 December 2025 for £686,000. Legal fees incurred on the sale were £4,000.

Noyla Ltd purchased a new factory in August 2025. On 1 January 2026, it purchased some industrial equipment, with an expected life of 30 years, for permanent installation in the new factory.

Requirements:

- 1) Calculate the chargeable gain on disposal of the factory on 31 December 2025 before any reliefs are claimed. (6)
 - 2) Explain the conditions for rollover relief, including whether these have been met by Noyla Ltd. Calculations are not required. (5)
 - 3) Explain how rollover relief would operate for the new assets acquired by Noyla Ltd. Calculations are not required. (4)
- Total (15)

6. Val has several business interests, and she is gradually reducing these business interests as she approaches retirement age. She made the following disposals to unconnected third parties during 2025/26.

1) Lease 1

On 1 May 2025, granted a 40-year lease of a commercial property to Sunny Days Nursery for £168,000. Legal fees on the grant of the lease were £1,750 and the freehold reversion was valued at £360,000. Val had purchased the commercial property in June 2010 for £220,000. She used it in one of her unincorporated businesses until 30 April 2025.

2) Lease 2

On 1 August 2025, the remaining eight years of a 25-year lease of old business premises was transferred to Ellie for £88,000. The lease had originally been acquired for £170,000.

3) Land

On 1 September 2025, three acres of land were sold to Jared for £38,000. Legal fees of £600 were incurred on the sale. Val had purchased eight acres of land in January 2016, for £46,000 and incurred legal fees of £800 and auctioneer fees of £2,300, with a view to setting up a riding stables business. In 2019, £15,000 was spent building stables on the part of the land that was sold to Jared. The remaining five acres of land were valued at £52,000.

4) Machine

On 8 December 2025, a machine which Val had always used in one of her businesses was sold for £30,000. It had been purchased in May 2020 for £46,000 and an annual investment allowance was claimed on acquisition.

5) First edition book

On 2 January 2026, Val also sold a personal item, a first edition book, to Godfrey for £10,000. Val had purchased the book for £2,400 at an auction in April 2006. Auctioneer fees were £240.

6) Shares in Halval Ltd

On 10 January 2026, eight shares in Halval Ltd were sold to Mo for £48,000.

Halval Ltd is a trading company which had been set up by Val and four of her friends in February 2019. The company had 100 £1 ordinary shares and Val subscribed for eight of these shares, paying £8 in total. She became a director of the company on the same date.

In June 2024, the directors of Halval Ltd issued an additional 100 shares to Mo, a cash investor. The issue was required to raise funds for commercial purposes.

Val continued to be a director at Halval Ltd until January 2026 when she sold her eight shares to Mo. If Val had sold her shares prior to Mo's investment in June 2024, she would have received £36,000.

Val has not made any claims for Business Asset Disposal Relief (BADR) in the past.

Requirements:

- 1) **Calculate the chargeable gains on the disposals in 1) to 3) above.** (6)
- 2) **Calculate the chargeable gains on the disposals in 4) to 5) above, with brief explanations of your treatment.** (3)
- 3) **Explain how Business Asset Disposal Relief (BADR) can apply to the disposal in 6) above, including the date by which any elections must be made. Calculations are not required.** (6)

Total (15)