ATT Paper 2 Business Taxation

ATT Paper 2 Business Taxation May 2026

0/98

Cover Page

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.

Marks available per question:

Question 1: 23 marks

Question 2: 15 marks

Question 3: 15 marks

Question 4: 15 marks

Question 5: 15 marks

Question 6: 15 marks

A maximum of two marks will be awarded for the quality of presentation of the answers.

Total: 100 marks

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.

When you have pasted calculations from Excel into the answer box, you might only see gridlines where there is an entry in the cell. You do not need to spend time adding extra gridlines manually. Please **do not** expand the width of tables in the answer box once pasted in from Excel. Column widths have been deliberately limited in the Excel spreadsheet to facilitate marking.

Question 1 /23

Question 1 0/23

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:

	Year ended 30 June 2024 £	Year ended 30 June 2025 £
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:

	£	£	Notes
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	12,300		6)
Total costs		(45,557)	
Profit/(loss)		(30,867)	

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.

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, 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 pric 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 val

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)

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Part 1

This is your Excel spreadsheet for Question 1. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

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ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Response

1-part1-ATTP2M26_Q1.xlsx

Part 2

This is your answer box for Question 1. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Loss per account	-30,867
Depreciation	5,780
Advertising and marketing (W1)	612
Rent and rates	-
Utilities	-
Site clearance (W2)	-
Legal and accounting (W3)	100
Postage and couriers	-
Insurance (W4)	124
Motor expenses (W5)	68
Wages and tax (W6)	12,300
Tax adjusted loss before capital allowances	-11,883
Capital allowances (W7)	Balancing charge
Transition profits (w8)	4,920
Tax adjusted loss.	-6,963

W1:		
leaflet design	allowable revenue expense	
customer entertaining	612	client entertaining is disallowable

W2:	
repairs	allowable
removal expenses	allowable

W3		
business accounts	allowable	
personal tax return	100	personal legal fees not allowable

W4:		
Business insurance	allowable	
Car insurance (620 x 20%)	124	private use not allowable

W5:	
private use element not allowable (20% x 340)	68

W6:		
monthly drawings (8x £1,2000)	9,600	personal drawings disallowable
personal tax.	2,700	personal tax disallowable cost
	12,300	

W7			
		MRP	Capital allowances
TWDV b/f		10,800	
Addition: testing machine (28000-20%)		22,400	
disposal: car (80% x 9200)		-7,360	
disposal: machine		-20,000	
		5,840	
Balancing charge		-5,840	5,840

W8	
remaining transition profits (60% x 8200)	4,920

Question 2

Question 3

Question 4

When Ben ceases to trade, he must deregister for VAT.

He will have 30 days to notify HMRC i.e by 31 March 2026. Deregistration from VAT will take effect immediately from 28 Feb 26.

He will have to complete a final VAT return for his business. VAT must be accounted for on the market value of any goods at hand on 28 Feb 26. Input VAT will be reclaimed on these assets still held by the business when it ceases (unless input tax was not recovered on them when first bought) and must be paid back as output VAT. Unless the value of this deemed supply is less than £1,000.

Question 2 /15

Question 1 0/15

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.

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)

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Part 1

This is your Excel spreadsheet for Question 2. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

- ATTP2M26_Q1-ATT P2 Q1
- ATTP2M26_Q1-ATT P2 Memory Joggers
- ATTP2M26_Q1-ATT TaxTables
- ATTP2M26_Q1-ATT Paper 2 BT Manual
- ATTP2M26_Q1-ATT Paper 2 CTVAT Manual
- ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Response

Part 2

This is your answer box for Question 2. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Question 1

The disposal of cars is subject to tax if a trade is being carried on. The disposal of the cars are then deemed a trade.

Repition suggests a trade is being carried on as it has happened many time.]There is a profit seeking motive as she sold them when she did not intend to as a good price was offered. The assets are bei

Question 2a

If the cars are not deemed to be trading they will be exempt from capital gains charges

Salary	18,000	
Karate trading income (W1)	15,200	
Less personal allowanace	-12570	
taxable income	20,630	
Tax: 20,630 x 20%	4,126	

W1:

Trading receipts £16,200

Less trading allowance -£1000

Trading income £15200

Question 2b

Class 4 NICs due on 31 January 2027 for tax year 2025/26.

Class 4 NICs due: (15,200 - 12570) x 6% = £158

Question 3

If the cars are not trading income they will be exempt from capital gains tax.

Kerry should notify HMRC of her trading income as her income is greater than £1,000, she should do this six months after the end of the tax year i.e by 5 October 2026.

If she fails to notify them a penalty will be charged for the failure to notify which will be a percentage of the lost revenue which will be the amount of unpaid tax and class 4 NICs due. The max penalty which chould be charged if deemed deliberate and concealed is 100% of the lost revenue, 70% if deliberate but not concealed and 30% if HMRC deem it to be due to carelessness. This penalty can be reduced if an unprompted or prompted disclosure is made.

Additionally, an incorrect return penalty could apply which will also be a perecntage of the lost revenue. This will be the extra tax and class 4 NICS due with the same penalties applying for failure to notify. If it is deemed to be a careless error the penalty could be suspended for two years.

Additionally, HMRC may enquire into Kerrys tax return they will have until 31.01.31 to enquire as she is a sole trader under her karate business.

Question 3 /15

Question 1 0/15

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:

Date	Description
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.

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)

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

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ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Part 1

This is your Excel spreadsheet for Question 3. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Response

1-part1-ATTP2M26_Q3.xlsx

Part 2

This is your answer box for Question 3. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Question 1

note excel not working**

Gift of building:

proceeds (MV): 292,000

less cost: 140,000

gain: 152,000

less gift relief: -152,000

gain: nil

Base cost of building for his wife

MV: 292000

less gift relief: -152,000

revised base cost: 140,000

Gift to wife is deemed to take place at market value. Assuming he claims gift relief as this is a qualifying business asset then the gain is nil and the gift relief is deferred into the base cost of the asset for his wife. His chargeable gain before gift relief is £152,000.

Shares to brother:

proceeds (MV) 38000

less cost -8000

gain 30000

these are shares in a personal trading company to a connected person, gift relief would be claimed as the shares are a qualifying business asset as they are shares in a personal trading company, as he owns more than 5% of the share holding.

There is a restriction on the amount of gift relief which can be claimed as the shares are in a personal trading company and the company has non-business assets, the gain eligible for relief will therefore be restricted as shown below:

Qualifying gain: (1/3) x 30000 = 10,000

The gain is restricted by the non-business assets which the business generates profit from but are not part of trading income i.e. the rents paid therefore only 1/3 of the gain qualifies as gift relief. The chargeable gain is therefore:

proceeds (MV) 38000

less cost -8000

gain 30000

less gift relief: -10,000

chargeable gain: 20,000

Bitcoin:

From the sale of his bitcoin, these are deemed to come from bitcoin aquired on the same day frist. No bitcoin was bought on the same day. Then the bitcoin is deemed to come from bitcoin acquired in the following 30 days the calculation of this part of the gain is shown below:

Proceeds: £73000 x 4/10 = £292,000

Cost -285160

Gain: £6,840

The remaining bitcoin sold is deemed to come from all the other bitcoin shares from a bitcoin pool.

Date/Narrative	Number	cost
04.01.08	30	339120
01.09.21	-8	-273984
12.10.23	12	267468
Total in pool	34	332,604
Less sale (4.05.25)	-6 (4 already matched)	-58695 (6/34 x 332,604)
Balance c/f	28	273,909

The gain from this pool is therefore:

proceeds: £73,000 x 6/10 = £43,800

less cost: -58695

loss: -£14,895

Total loss from sale of shares:

£6,840 - £14,895 = -£8,055

Question 2

For the building used in his trade, as the business is continuing to trade it will not qualify for business asset disposal relief. However, as he is claiming gift relief on the full amount there will be no chargeable gain.

For the shares sold in the personal trading company, as he did not work for the company he will not be able to claim business asset disposal relief for the remainder of the gain after gift relief. However, it will be eligible for investors relief as the shares were held for three shares, it is an unquoted trading company, he is not conected to the company and the shares were new ordinary shares subscribed for after March 2016. There is an investors lifetime limit of £1,000,000 however this is not relevant as the gain does not exceed this.

	Gains eligible for IR	Gains not eligible for BADR/IR
Sale of building (as calculated above)		nil
Sale of shares	20,000	
bitcoin		-8,055
Less: annual exempt amount	-3,000	
Less: capital losses b/f	-1000	
Taxable gains	7,945	
Tax: 7,945 x 18%	14,301	
Total capital gains tax due	14,301	

Basic rate band remaining:

Trading income 27000

less personal allowance -12570

taxable income 14,430

Basic rate band remaining:

37700 - 14,430 = 23,270

Question 4 /15

Question 1 0/15

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 CO_2 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)

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Part 1

This is your Excel spreadsheet for Question 4. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

- ATTP2M26_Q1-ATT P2 Q1
- ATTP2M26_Q1-ATT P2 Memory Joggers
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- ATTP2M26_Q1-ATT Paper 2 BT Manual
- ATTP2M26_Q1-ATT Paper 2 CTVAT Manual
- ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Response

1-part1-ATTP2M26_Q4.xlsx

Part 2

This is your answer box for Question 4. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Profits per account	185,000		
less dividends recieved	-3400		
Staff costs (W1)	2400		
depreciation (W2)	26,400		
Interest costs (W3)	nil		
loss on sale of fixed assets	8,600		
Balancing charge on disposal of heating system (W4)	1450		
tax adjusted profit CA	220,450		
Balancing			
Capital allowances:			
On plant and machinery (W4)	-4773		
On SBAs (W5)	-1680		
Tax adjusted profit after CA	213,997		
Tax: 213,997 x 25%	53,499		
less: marginal relief (W6)	-481		
Corporation tax liability	53,018		

W1:

bonuses - allowable as paid within 9 months

pension contributions - not allowable as not paid in period

W2;

depreciation not allowable but depreciation for assets aquired under finance lease allowable, therefore add back £34,000 - £7,600 = £26,400

W3:

interest costs allowable on finance lease and as vans no 15% restriction

W4:

	AIA/FYA	MRP	SRP	Capital allowances
TWDV b/f		26,000	17,000	
Disposal: machinery		-		
Disposal: heating system			-1450	
		26,000	15,550	
WDA @18%		(4680)		4680
WDA @6%			(93)	93
Total capital allowances				4,773
TWDV b/f				

Disposal of the machine: no capital loss allowable as relief already recieved from the fall in value through capital allowances.

Heating system: as 50% FYA was claimed 50% of the proceeds are deducted from the SRP 50% of the proceeds create a balancing charge.

W5:

Cost of warehouse: no relief as before October 2018

Extension: 3% x 56000 = £1680

W6:

Marginal relief = 3/200 x (250000- 217,397) x (213997/ 217397)

= 3/200 x 32603 x 0.984

= 481

TTP = 213,997

Dividends = 3400

Augmented profits = 217,397

Question 2

When the warehouse is disposed of the gain will be chargeable to corporation tax, this will be calculated by the proceeds received less the cost of the building and the cost of the extension.

The cost of the building will also have an indexation allowance to factor in the effect of inflation. The indexation factor is rounded to three decimal places and calculated as the RPI at 30 June 2026 which is the RPI at 31.12.17 less the RPI on the date of acquisition in 2012 divided by the RPI at acquisition. This indexation allowance will then be multiplied by the cost of £175,000. This will then create a bigger cost reducing the gain on the building.

There will be no indexation allowance available on the extension as it occurred after December 2017 when it was frozen.

However, structures and building allowance could be claimed on the extension as it occurred after October 2018, but it could not be claimed for the initial warehouse as this was constructed in 2012. The SBAs claimed for the extension can be 3% x 56,000 per annum, reduced accordingly in the year of extension. Upon sale of the warehouse the total amount of SBAs claimed will be added to the consideration recieved in the calculation of the capital gain. The total SBAs claimed are £56,000 x 3% x 79/12 = £11,060. This will be added to the proceeds received when calculating the gain.

Additionally, as the business wishes to reinvest some of the proceeds into a new warehouse, it can claim rollover relief, this is as qualifying assets of buildings used for the trade are being disposed of and reinvested into assets used for trade i.e. another warehouse which is a freehold and therefore a qualifying asset for rollover relief. As long as the new warehouse is bought three years after the disposal it will qualify.

As only some of the net sale proceeds are reinvested, the gain equal to the cash retained will be chargeable. The balance / the amount reinvested will be the rollover relief and deducted from the base cost of the replacement warehouse. This effectively defers the gain to a later tax year.

The claim must be made within four years of the accounting period in which the replacement asset is bought.

Question 5 /15

Question 1 0/15

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:

Year end	Date of issue
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)

ATTP2M26_Q1-ATT P2 Q1

ATTP2M26_Q1-ATT P2 Memory Joggers

ATTP2M26_Q1-ATT TaxTables

ATTP2M26_Q1-ATT Paper 2 BT Manual

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Part 1

This is your Excel spreadsheet for Question 5. It is only for your workings: the spreadsheet itself **will not be marked**.

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- ATTP2M26_Q1-ATT P2 Q1
- ATTP2M26_Q1-ATT P2 Memory Joggers
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- ATTP2M26_Q1-ATT Paper 2 BT Manual
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Response

Part 2

This is your answer box for Question 5. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Question 1:

Memorandum:

To: James

From: tax advisor

Date: 06.05.26

Subject: client acceptance

To take on a new client several things need to be considered, firstly professional enquiry needs to be completed. Firstly, you should obtain permission from the clients to allow you to reach out to their previous advisor. Once permission has been given by the client, you should ask their previous advisor if there is any reason you should not take on this new client.

If their previous advisors response to the professional clearance letter does not state that there is no reason you should not take on this client or the new client refuses to give permission for you to contact their previous advisor, you should consider carefully whether to take on this new client.

Once professional clearance has been obtained from the previous advisor, you should ensure there is not significant financial risk with the client or any other significant risks which may for example harm the reputation of the tax firm when taking on this new client.

All firm risk procedures on the client should be carried out appropriately, and any risk reports should be filed.

Additionally, you should reach out to their previous advisor after obtaining permission from the new clients to recieve the clients previous documents to ensure that the clients affairs are dealt with on a timely basis and no filing deadlines, time limits for claims, elections or notices of appeal are missed.

After carrying out the necessary risk procedures and conflict check an engagement letter should be issued to the client, clearly stating the work the firm will carry out for the client, the fee basis and when the fees will be due and other relevant information.

There may a risk to objectivity as the new clients are competitors of our current clients, proper procedures would need to be put in place to ensure that professional judgement is not compromised by bias or conflict of interest or influence from other. Additionally, there could be a risk to confidentiality to both our current and new clients as they are competitors and protecting their client information from each other is essential.

To protect the clients and ensure confidential and professional judgement is maintained different tax advisors should work for these clients and none of the same advisors should work for both clients. All tax advisors should not speak to each other about the clients. Additionally, walls should be put in place to ensure that there is no sharing of information and confidentiality is maintain, this could include working on different floor or rooms where possible.

If it is not possible for different advisors to work on these clients, then you should consider carefully whether you are able to maintain confidentiality. If not you should not take on the new clients.

Question 2

To: Luca and Raul

From: Tax Advisor

Date: 06/05/26

Subject: Corporation tax

Dear Luca and Raul

Thank you for getting in touch, please find below a response to your questions.

Due dates for filing and payment

The due date for filing the CT return for y/e 31.03.24 is 31.03.25 as this is later than 3 months after the reciept to file the CT return which is (29.07.24) The due date for payment is nine months and one day from the end of its accounting period which is therefore, 01.01.25.

The due date for filing the CT return for y/e 31.03.25 is 31.03.26 as this is later than 3 months after the reciept to file the CT return which is (28.07.25) The due date for payment is nine months and one day from the end of its accounting period which is therefore, 01.01.26.

The return and payment must be submitted online.

The potential penalities

The company was required to notify HMTC of its chargeability to corporation tax within 3 months of the start of it's first account period and must state when it's first accounting period began. The first accounting period began on 1 April 2023 and they notified HMRC of their chargeability therefore they did so within the time frame.

As the return for 31.03.24 has not be submitted, and was due to be submitted on 31.03.25 a £200 flat rate penalty will apply, as the return is over three months late. Additionally a tax geared penalty will apply, as more than two years has passed since the end of the accounting period, the penalty is 20% of the unpaid tax at the 18 month point, 18 months is 30.09.25 therefore £2,000 x 3 payments had been made, reducing the outstanding tax liability to £18,750 - £6,000 = £12,750, therefore the penalty is 20% x £12,750 = £2,550. This total payment is due within 30 days of the assessment being raised and if it is not paid interest will be charged. It is therefore recommended that you pay the remaining tax and penalty as soon as possible.

For the y/e 31.03.25, the company will be able to amend the provisional figures until 01.01.28, therefore it is recommended they do so as soon as possible, any underpaid tax on provisional figures will be liable to interest from it's due date 01.01.27 to when it is paid. Additionally, the company could be liable to penalites for an incorrect return depending on the percentage of lost revenue, which is the actual tax due less the tax paid multiplied by the tax rate for the company.

A penalty will be charged for each error and the max penalty is 100% if the failure is deliberate and concealed of 70% if deliberate but not concealed or 30% if due to carelessness. These penalties can be reduced and if it is a careless mistake and a unprompted disclosure is made, the penalty can be reduced to 0%.

The interest liable

The company will be liable to interest if it does not pay the penalty of £2,750 for the late return for its period ending 31.03.24 and any penalty charged for an incorrect return for the y/e 31.03.25 within 30 days.

Additionally, interest will be charged on the late paid tax for the y/e 31.03.24 at 7% from the due date of payment i.e 01.01.25 to when it is actually paid, therefore it is recommended that you pay the remaining balance as soon as possible.

For the underpaid tax in the y/e 31.03.25 this will be liable to interest, from its due date of payment i.e. 01.01.26 to when the tax is paid, therefore interest of 7% will be charged on the underpaid tax from 01.01.26 to when you pay it, therefore it is recommended that you pay this tax as soon as possible.

If you have any questions on the above please let me know.

Kind regards

Tax advisor

Question 6 /15

Question 1 0/15

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)

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Part 1

This is your Excel spreadsheet for Question 6. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

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Response

Part 2

This is your answer box for Question 6. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Question 1

Proceeds (2% x 24 x 40,000)	19,200	
Less cost 150,000 x (19,200/ (40,000 + 160,000)	-14,400	
Gain	4,800	

Question 2

Under alternative 1, the premium for the building, will be a chargeable gain for the business. For the plant and machinery bought from hugo, this will give rise to a chargeable gain. He will be able to claim business asset disposal relief if they have been used in the business for two years and he has owned them for three years and he is also making a material disposal of his shares in the company, but if he doesn't dispose of his shares in the company he will not be able to claim BADR on their disposal and will be taxed at 18%/24% depending on the rest of his income.

For Flick ltd the company will be able to deduct part of the premium paid for the lease from its trading profits, the part chargeable to income tax for Hugo divided by the period of the lease.

If the P&M bought is second hand 100% AIA will be available for the cost of it through capital allowances. There is an annual allowance of £1,000,000 for AIA.

Under alternative 2

If hugo sells his shares in the business this will give rise to a chargeable gain equal to the proceeds received less the cost he paid for them. However, Hugo will be able to claim business asset disposal relief at 18% in 2026/27, as he is a sole trader selling the whole of his business.

When the company acquires these shares there will be no corporation tax liability but when they sell the shares there will be a liability for the proceeds received less the cost paid for them however business asset disposal relief may be available.

If Hugo sells his shares then sells the factory and P&M to another party these will give rise to a chargeable gain at his marginal rate of tax.

Hugo will also be able to claim his annual exempt amount of £3,000 on any chargeable gains.

Question 3

If Hugo sells his shares in the company, then sells the office in december 2026, this will give rise to a chargeable gain, he will not be able to claim the indexation factor as it was bought after december 2017. The gain will be the proceeds received, less the cost of the building. He will be able to claim business asset disposal relief however, this will be restricted as he charged rent at 83% of its market value (25,000/30,000). Therefore the gain of the building, 17% would be eligible for BADR at 18% and 83% would give rise to a full gain at 18%/24% depending on the rest of his income. He would be able to deduct the annual exempt amount from the gain not eligible for BADR. It is eligible for BADR as he is also disposing more than 5% of his assets in the business and it was used for the business for two years and he has owned it for three.

If he rents the office building to a new tenant this will be chargeable property income for Hugo and if he then sells the building in two years it will not be eligible for business asset disposal relief as two years will have passed and it will no longer be an associated disposal, therefore full capital gains tax will be charged at 18%/24%, he will be eligible to the annual exempt amount.