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

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ATTP2M26_Q1-ATT P2 Q1

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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

1) Draft loss	-30,867			
Add:				
Depreciation	5,780			
Advertising (£612 client entertainment disallowable)	612			
Site clearance	-			
Legal and accounting (personal costs disallowable)	100			
Insurance (20% car insurance private use added back)	124			
Motor expenses (20% private use of car added back)	68			
Drawings (added back)	12,300			
Trading loss before capital allowances	-11,883			
Less: Capital allowances (W1)	-2,420			
Tax-adjusted trading loss	-14,303			
W1:				
	Main pool	FYA (car, VAT exclusive)		Balancing charge / (allowance)
TWDV b/f	10,800	18,380		
Additions				
Testing machine (VAT inclusive, 28,000 x 100/80)	35,000			
Total	45,800	18,380		
Disposals				
Testing machine (VAT inclusive, 20,000 x 100/80)	25,000			
Car (VAT exclusive, lower of cost and sales proceeds)	-			
Total	20,800	18,380		
Balancing allowance	20,800			-20,800

Balancing charge		-18,380		18,380
Net balancing allowance				-2,420

2)

<u>2025/26</u>				
Tax-adjusted trading loss 8 months ended February 2026	-14,303			
Taxable trade profits year ended 30 June 2025 x 3/12 months	3,100			
2025/26 loss	-11,203			
<u>2024/25</u>				
Taxable trade profits year ended 30 June 2025 x 9/12 months	9,300			
Taxable trade profits year ended 30 June 2024 x 3/12 months	14,000			
2024/25 profits	23,300			
<u>2023/24</u>				
Taxable trade profits	64,000			
Ben made profits in his penultimate year, so the terminal loss he can use is the loss arising in the final 12 months of trade, 2025/26.	This will be £11,203 + 1/12 x (12,400) = £10,170.			
Terminal losses will be set against trading income in the final tax year, then the previouse three tax years on a LIFO bsis.				
	2023/24	2024/25	2025/26	
Taxable trade profits	64,000	23,300	-	
Transitional profits	1,640	1,640	4,920	Remaining transitional profits used
Trading income	65,640	24,940	4,920	
s.89 loss relief		-5,250	-4,920	
Property income	15,000	15,000	15,000	
Taxable income after loss relief	80,640	34,690	15,000	
Loss memo:				
Terminal loss	-10,170			
s.89 claim against CY income	4,920			

	-5,250			
s.89 claim against PY income	5,250			
Loss remaining	-			

3)

Ben will have to make two POAs in the tax year 2025/26, on 31 January 2026 and 31 July 2026. These will be half of the previous year's liability to income tax and NICs, but not capital gains tax.

To reduce his POAs, Ben could elect to make a s.64 loss relief to use the losses he makes in 2025/26 against his prior year profits in 2024/25.

This would allow him to carryback the trading losses he makes in 2025/26 against his net income for 2024/25, allowing relief for the property income as well as trading income and transitional profits.

As a result, Ben would have a lower 2024/25 liability to tax, and his POAs for 2025/26 would be lower.

4)

As Ben is ceasing to trade, and in doing so ceasing to make taxable supplies, it is compulsory for him to deregister for VAT.

The date the business ceases to trade, 28 February 2026, will be the date the business must deregister from VAT.

Ben has 30 days from the date the business deregisters to notify HMRC, so by 30 March 2026.

Ben must account for any VAT on goods still in hand on the date he deregisters. This VAT must be reported and paid to HMRC on the final VAT return, unless the total VAT on goods in hand does not exceeds £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

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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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- ATTP2M26_Q1-ATT Paper 2 ITCGT Manual

Response

1-part1-ATTP2M26_Q2.xlsx

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

1)

The disposal of the classic cars will not lead to a capital gains tax liability, as cars (including classic/vintage cars) are exempt from CGT.

Teri may be required to pay income tax/NICs on the profits he makes from selling cars if HMRC deem the activity as a trade. The badges of trade below will help HMRC to decide if the activity Teri carries out is a trade:

-Repetition: A high frequency of similar sales may indicate a trade is being carried out. Teri only made the sale of two cars in 2025/26, so this in itself is unlikely to constitute a trade, but as these are valuable assets and this is an increase on the numbers sold previously, it may be considered a trading activity.

-Organisation: If an individual uses specialist sales organisations, e.g. Ebay to make sales, this is more likely to be considered a trade. As Teri uses a specialist online market place in 2025/26, this is likely to indicate a trade is occurring.

-Profit-seeking motive: If an individual makes sales with the aim of making profit, this is likely to indicate a trade. Initially, Teri did not intend to make sales, but in 2025/26 they sold the cars with profit in mind as a means to collect funds for building works. This is likely to indicate a trade is ongoing.

-Gap between acquisition and sale: If an individual has assets that are acquired and sold quickly, would be likely to indicate a trade. Teri does not turn over his cars quickly, holding on to them for some time suggesting he finds some value in them. This is unlikely to indicate a trade is occuring.

As Teri's activities look to meet some of the badges of trade, HMRC may try and claim this is a trade and Teri may be liable to pay tax on trading profits.

2)

a)

Cash received £16,200

Teri has qualifying expenses in the year of £320 for insurance and certification. As their allowable expenses are less than £1,000, Teri can make a claim to deduct a £1,000 trading allowance instead of actual expenses.

Less: Trading allowance (£1,000)

Trading income £15,200

Less: PA (£12,570)

Taxable income £2,630

b)

Trading income £15,200

Teri will be charged Class 4 NICs at 6% above the lower limit of £12,570.

(£15,200 - £12,570) x 6% = £158.

If Terry is required to make POAs, he will pay Class 4 NICs as part of his POAs on 31 January 2026 and 31 July 2026, based on the previous year's liability to Income tax and NICs, with a balancing payment due 31 January 2027.

Otherwise, he will be required to pay his Class 4 NIC liability on 31 January following the end of the tax year, so 31 January 2027.

3)

Teri would have to notify HMRC that they started to trade six months after the end of the tax year in which they begin to trade. We would have to determine from Teri when the Karate business started.

Assuming Teri's begins trade in 2025/26, they will have until 5 October 2026 to notify HMRC.

The penalty for failing to notify HMRC of a commencement of trade is a percentage of lost revenue.

As Teri was aware of the need to notify HMRC, the failure to notify HMRC will be considered deliberate (but not concealed). This will lead to a maximum penalty for failure to notify HMRC of 70%.

As HMRC have been tipped off about the failure to notify, the minimum penalty that Teri could face for a prompted disclosure will be 35% of lost revenue. If Teri complies with HMRC to help sort out the issue, this will help their chances of receiving a lower penalty.

As the penalty is based off of a percentage of lost revenue, if Teri makes their income tax and NIC payments on time (by 31 January 2027), the penalty will be £nil.

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

ATTP2M26_Q1-ATT Paper 2 CTVAT Manual

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**.

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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

1)

Gift of building to Lindsay

Gifts between spouses are recorded as no gain, no loss. As a result, no capital gain/loss will arise on this gift.

Gift of Hyxvel Ltd shareholding to David

Gifts to connected persons, including brothers, are recorded with sales proceeds at market value.

Proceeds £38,300

Less: Cost (£8,000)

Unrelieved gain £30,300

Gift relief will be available on this disposal, as this is the disposal of shares in a personal trading company (as Darren owns > 10% shareholding) sold below market value.

The gift relief gain Darren can claim will be restricted, as this is the sale of shares in a personal company with non-business assets. The office block is a chargeable asset, but as Hyxvel Ltd only use one of the three floors, only a third of the building will be a chargeable business asset.

As a result, the gain eligible for gift relief will be apportioned by MV of chargeable business assets / MV of chargeable assets, or 1/3.

Gain qualifying for gift relief: (£30,300 x 1/3) £10,100

Less: Gift relief (£10,100)

Chargeable gain to Darren: £0

The remaining gain of £20,200 will not be eligible for gift relief, so will be chargeable to Darren in 2025/26. However, he will be able to claim investor's relief on the disposal, as the following conditions are met:

-Darren acquired shares from an unlisted trading company

-Darren subscribed for the shares new in cash

-Darren acquired the shares after 17 March 2016

-Darren is not an employee/director of Hyxvel Ltd, and is not associated with anyone who is

-Darren has held the shares continuously for 3 years before disposal

Assuming Darren has not exceeded his lifetime limit of £1 million for Investor's relief, the remaining gain of £20,200 from the sale of the shares will be eligible for Investor's relief with a CGT rate of 14%.

Sale of Bitcoin

The disposal of cryptocurrencies is treated the same as shares for CGT purposes.

To establish the cost of the Bitcoin, the share matching rules apply as follows:

Bitcoin acquired on same day as disposal: none

Bitcoin acquired 30 days after disposal: Yes, four Bitcoin were acquired.

These Bitcoin are treated as being sold first, so 4/10 of the Bitcoin sold will have cost £285,160.

We have to find the cost of the remaining six Bitcoin sold, so a share pool will be used:

	Bitcoins	£/BC	Total cost	
Purchase	30		339,120	
Sale	-8		-273,984	
	22	2,961	65,136	(65,136 / 22 = 2,961)
Purchase	12		267,468	

	34	9,782	332,604	(332,604 / 34 = 9,782)

The cost of the remaining 6 Bitcoin will be 6 x £9,782 = £58,695 (unrounded).

The gain is calculated as follows:

Proceeds	730,080
Less: Bitcoin acquired in next 30 days cost	-285,160
Less: Share pool cost for 6 Bitcoin	-58,695
Gain	386,225

2)

	Non-Investor's relief	Investor's relief	
Gain of gift to Lindsay	-		
Gain on Hyxvel shares (gift relief qualifying)	-		
Gain on Hyxvel shares (non-gift relief qualifying)		20,200	
Gain on sale of Bitcoin	386,225		
Net gain	386,225	20,200	
Less: b/f capital losses	-1,000		
Less: AEA	-3,000		
Taxable gain	382,225	20,200	
IR gain @ 14%:	20,200	14%	2,828
CGT @ 18%: (W1)	3,070	18%	553
CGT @ 24%:	379,155	24%	90,997
CGT liability:			94,378
W1:			
Trading income	27,000		
Less: PA	-12,570		
Taxable income	14,430		
IR qualifying gain	20,200		
	34,630		
	-37,700		
Remaining basic rate band after IR gain calculated	-3,070		

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.

<u>Warehouse</u>

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

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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_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

1) Profit before tax	185,000				
Add:					
Dividends received (taxed to individuals)	-				
Bonuses (paid within 9 months of year end, allowable)	-				
Pensions (not paid within year, added back)	2,400				
Depreciation (finance lease allowable, £34,000 - £7,600)	26,400				
Interest payable (trade related, okay)	-				
Loss on sale of fixed assets	8,600				
Tax adjusted profit before capital allowances:	222,400				
Less: Capital allowances (W1)	-2,913				
Add: Balancing charge	1,450				
Less: SBAs (W2)	-1,680				
Trade profits	219,257				
TTP:	219,257				
Dividends received	3,400				
Augmented profits	222,657				
Lower limit for marginal relief:	50,000				
Upper limit for marginal relief:	250,000				
Chalt Ltd has augmented profits between the marginal relief limits, so they will pay CT at a marginal rate as follows:					
CT at main rate:	222,657 x 25%:		55,664		
Marginal relief:	3/200 x (250,000 - 222,657) x (219,257 / 222,657)				

	= 3/200 x 27,343 x 0.9847298				
	= £404				
			-404		
CT liability			55,260		
W1:					
	AIA	Main pool	SR pool	CA's	Balancing charge
TWDV b/f		26,000	17,000		
Disposals					
Machinery		-15,000			
Heating system (50% sales proceeds deducted from SR pool)			-1,450		
Balancing charge on disposal of 50% FYA asset					1,450
Total		11,000	15,550		
WDAs @ 18%:		1,980		-1,980	
WDAs @ 6%:			933	-933	
Total CA's:				-2,913	
TWDV c/f		9,020	14,617		
W2:					
SBAs can only be claimed on expenditure occurring after 29 October 2018.					
As a result, only the 2019 extension qualifies for SBAs.					
SBAs = £56,000 x 3% =	1,680				

2)

Chalt Ltd will have to pay CGT on the sale of the warehouse, calculated as sales proceeds, less and capital enhancement expenditure, less original cost.

Chalt Ltd are not entitled to an AEA as a company.

However, indexation allowance will be available to reduce the gain on the warehouse for Chalt Ltd.

This would reduce the cost of the warehouse by applying the fraction (RPI at 31.12.17 - RPI at acquisition) / RPI at acquisition.

Indexation was paused in December 2017, meaning indexation allowance will apply to assets acquired before December 2017. The warehouse was acquired in 2012, so indexation allowance would reduce the gain from inflation between 2012 and December 2017.

The expenditure on the extension would receive no such allowance, since it was constructed after December 2017.

As the warehouse is a qualifying land and building asset used in business, rollover relief can be claimed to defer the indexed gain.

If Chalt Ltd acquire a replacement asset between 12 months before and three years after the disposal of the warehouse, they can claim to defer the gain.

Rollover relief is reduced if all the proceeds from the sale of the warehouse are not reinvested fully, leaving the amount of cash retained chargeable to CGT.

Chalt Ltd must elect for rollover relief to apply within four years of the end of the later of:

-The accounting period in which the warehouse is sold.

-The accounting period in which the replacement warehouse is acquired.

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**.

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

Response

1)

Good morning James,

Please find a memorandum of some of the key considerations for client acceptance that we should consider before taking on Dout Ltd.

-We should monitor the possibility of a conflict of interest arising. As we currently act for a competitor of Dout Ltd, we should consider whether a conflict of interest could arise if we are supporting both Dout Ltd and a competitor. We should not proceed with Dout Ltd as a client if we believe the services we can provide will be negatively impacted. We should ensure our unique position of knowing a lot of details about a competitor does not affect our work with Dout Ltd.

-As Dout Ltd have been in business for a few years, we should seek professional clearance information from previous advisors if this is applicable. We should request information that may help in our dealings with Dout Ltd as a client, such as information on previous returns, previous claims made, and any deadlines for future claims/elections to be made. We should also ask if there is a professional reason why we should not take on Dout Ltd as a client.

-If we believe we can not act due to any of the above factors, we should express this to Dout Ltd in writing. We should not inform them as to why, in order to protect the confidentiality of our existing client Eben Ltd.

2)

Good morning Luca, Raul

I hope you are both well.

Thank you for reaching out regarding any penalties or interest which may be due by Dout Ltd. Please find explanations to your queries below:

a)

Dout Ltd will have the following accounting periods (which cannot run for longer than 12 months):

1 January 2023 - 31 March 2023.

1 April 2023 - 31 March 2024. This accounting period began as the trade commenced.

1 April 2024 - 31 March 2025.

1 April 2025 - 31 March 2026.

The relevant due dates for filing will be:

1 April 2023 - 31 March 2024: 31 March 2025

1 April 2024 - 31 March 2025: 31 March 2026

Based on the estimated corporation tax liability of £18,750, it would appear Dout Ltd will be a 'small/medium' company. For Dout Ltd to be a large company, they would have to have augmented profits in excess of £1,500,000.

The relevant payment dates for corporation tax will be 9 months and one day after the end of the accounting period, as follows:

1 April 2023 - 31 March 2024: 1 January 2025

1 April 2024 - 31 March 2025: 1 January 2026

b)

<u>Late filing penalties</u>

The corporation tax return for the year ended 31 March 2024 is currently 1 year and 2 months late.

The following late filing penalties will have been charged for the late filing of this return:

-Immediate late filing penalty of £100.

-£200 late filing penalty as the return is more than three months late.

-A tax geared penalty of 20% as the return has not been filed within two years of the end of the accounting period (> 1 year late). This penalty will be based on the tax outstanding 18 months after the start of the accounting period. You will have had an outstanding corporation tax liability of £12,750 (£18,750 - 3 x £2,000)) at this point, resulting in an additional penalty of £2,550.

The corporation tax return for the year ended 31 March 2025 was filed on time, so no late filing penalties will arise here.

Late payment penalties

No late payment penalties will be imposed on Dout Ltd, but instead late payment interest will apply

c)

Late payment interest

Late payment interest will be charged daily from the date the payment was due to the date the payment was made, at 7.5% per annum.

Dout Ltd paid corporation tax late for the tax year ended 31 March 2024, so interest would begin accruing from this date. When monthly instalments begin to be paid, the amount interest would be accruing on would reduce. Interest is due alongside any other penalties incurred.

For the year ended 31 March 2025, the corporation tax payment was made on time. If, however, an amendment is made to the filed return which increases the corporation tax liability, late payment interest would accrue on the understated amount from the day it would be 'late' (1 January 2026), until the date it is paid.

Please get in touch if you have any further queries,

Best regards,

ATT member

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)

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 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.

- 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_Q6.xlsx

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

1)

Grant of a short lease		
The £40,000 premium will have an income elemt and a capital element		
Capital element:	2% x (25 - 1) x £40,000	
	= 2% x 24 x £40,000	
	=£19,200	
Cost:	£125,000 x (£19,200 / (£40,000 + £160,000))	
	= £125,000 x (0.096)	
	= £12,000	

Gain = £19,200 - £12,000 = £7,200.

2)

Corporation Tax

Flick Ltd will cease to trade, so will no longer become liable to corporation tax.

In the final period, under alternative 1, the plant and machinery would be sold for a loss of £11,000 (£86,000 - £75,000).

Flick Ltd will secure relief for this loss by way of an allowable deduction to trading profits. They can use any resulting losses on cessation of trade against either trading income from the prior three years, or against total income in the final year and/or the prior year. This could allow Flick Ltd to receive a corporation tax refund.

Capital gains tax

As Flick Ltd is ceasing to trade, BADR may be available on the disposal of assets.

Under alternative 1, any assets used at the date the business ceases could be eligible for BADR, provided Flick Ltd was owned for two years and the assets are sold within three years. Both of these conditions are met.

The gain on any individual items of plant and machinery will be exempt if both cost and sales proceeds are less than £6,000.

As it appears Hugo will make a loss on the sale of the assets to Glack Ltd, a capital loss will arise. Hugo can use this loss against any capital gains arising in this period or in any future periods.

Under alternative 2, BADR will be available on the disposal of the shares in a personal company for Hugo, as:

-Hugo owns > 5% of the shares and voting rights, being the only shareholder

-Flick Ltd is a trading company

-Hugo is a director of Flick Ltd

-Hugo has held the shares and met all of the above conditions continuously for two years prior to the disposal

As a result, Hugo will be liable to any gain arising under option 2 at 14%, provided he has not exceeded his £1 million lifetime limit for BADR.

In both options, Hugo will be able to offset any capital gains with his AEA and/or any brought forward capital losses.

3)

If Hugo sells the building:

As the disposal of shares is a qualifying material disposal for BADR, and the office building is sold in conjunction with this disposal, an associated disposal will occur.

This is possible since Hugo has used the building in business since September 2018, for over two years, and owned the building for over three years in the same timeframe.

The gain would be chargeable to 14% BADR rate in 2026/27, provided Hugo has not exceeded his £1 million lifetime limit for BADR.

However, since Hugo has rented out the building to Flick Ltd, BADR would only be available to the extent that Hugo has provided Flick Ltd a discount. Since Hugo only provides a discount of a sixth, one sixth of the disposal would be eligible for BADR and five sixth's would not be eligible for BADR.

<u>If Hugo rents to a new tenant</u>

Hugo will be unlikely to claim BADR in the future on the sale of a single building, as this is not a material business asset in itself.

If he rents out the building and sells it in two year's time, a capital gain will arise in two year's time on the eventual proceeds less the original cost of £150,000.

Hugo will also be able to deduct and enhancement expenditure he spends on the building.

In either case, Hugo will be able to deduct his AEA from his net gains for the year, provided this is not fully offset by brought forward capital losses.