THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

NOVEMBER 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation of the answers.

Important Information – Please read carefully

A 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, all computations and workings completed in the spreadsheet **MUST** be copied and pasted into the word processor answer box. Any calculations left in the spreadsheet and not copied to the answer box will not be marked.

You **MUST** use keyboard shortcuts to copy from and paste to the answer box. These are CTRL+C (Command+C on a Mac) to copy and CTRL+V (Command + V on a Mac) to paste. Other methods of copying/pasting will not work.

- Markers will NOT be able to view any formulae/workings behind calculations carried out in the spreadsheet. You must set out details of your workings in full.
- Tax tables and the Tolley Manuals / Memory Joggers can be accessed as PDFs via the "open book" icon in the top right of your screen.
- Hyperlinks to Croner and Tolley (Lexis Nexis) student legislation versions, and HMRC manuals, can also be accessed via the "open book" icon in the top right of your screen.

Technical support during the exam: how to access

- You will be able to access technical support during the exam. This is limited to troubleshooting issues with the exam software.
- You can open the support portal by navigating to the 'open book' icon in the top right of the screen. A link to candidate support is provided in the resources list.
- This will open in a separate tab in the secure browser. The 'chat' function is found in the bottom right of that screen. The chat will first attempt to resolve issues by directing you to troubleshooting guidance. If that is unsuccessful, you will be directed to a live agent.

1. Ablatt Ltd, a single company, has traded for many years as a manufacturer of shop fittings. The company had always prepared accounts to 31 December each year. The company then extended the period of account and accounts were prepared for the 15 months ended 31 March 2026.

The draft profit and loss account for the 15 months ended 31 March 2026 is as follows:

	Notes	£	£
Sales			6,564,500
Cost of sales			(4,980,000)
			1,584,500
Rental income	1)		35,000
			1,619,500
Expenses			
Employee costs (all allowable)		725,000	
Premises costs	2)	184,000	
Repairs (all allowable)		78,000	
Administrative expenses (all allowable)		248,000	
Finance costs	3)	76,000	
Depreciation		65,000	
Loss on sale of fixed assets	4)	8,500	
			1,384,500
Net profit per accounts			235,000

1) Ablatt Ltd occupied a rented factory until 30 September 2025 when it moved out of the factory into a new factory. The lease on the old factory expires in March 2027. The old factory was immediately let to a tenant at an annual rent of £70,000. The tenant paid for all costs of the factory from 1 October 2025.

2) Premises costs are:

		£
Rent of old factory	Annual rent £85,000	106,250
Other costs	All allowable	77,750
		184,000

3) Finance costs are:

	£
Loan arrangement fees	20,000
Loan interest	50,000
Overdraft interest	6,000
	76,000

The loan arrangement fees and interest were for a loan of £2,000,000 taken out on 30 September 2025 to buy the new factory. The total cost of the factory was £2,500,000 made up as follows:

	£
Land	680,000
Construction	1,650,000
Integral features	170,000
	2,500,000

4) On 1 February 2026, Ablatt Ltd sold a car which had been used by the director. The sale proceeds were £16,000. The cost had been £36,436 when new. The car had CO_2 emissions of 49 g/km and had been used 80% for business purposes.

At 1 January 2025, the balances were £25,000 on the general pool and £13,000 on the special rate pool.

Continued

Continuation

Corporation Tax return for the year ended 31 December 2024

Due to an administrative error, the directors realised that the Corporation Tax return for the year ended 31 December 2024 had not been filed. The return was filed on 31 October 2026. The tax due of £64,600 was paid at the same time. Ablatt Ltd had not previously filed a late return.

Requirements:

1. Calculate the taxable total profits for Ablatt Ltd for the accounting period(s) in the 15 months ended 31 March 2026. (13)

2. a) Explain the dates by which the Corporation Tax return(s) for the accounting period(s) in requirement 1 above should be filed and the Corporation Tax liabilities paid. (2)

b) Explain, with supporting calculations, the penalties for the late filing of the Corporation Tax return and the late payment of Corporation Tax for the year ended 31 December 2024. (3)

Total (18)

2. Shona has been trading for many years as a dairy farmer, preparing accounts to 31 March each year.

For the year ended 31 March 2026, the draft profit and loss account shows a profit of £44,000. She has made an election for the herd basis to apply to the dairy herd and so accounts are prepared under the accruals basis.

You are given the following information:

1) All the farmhouse costs of £7,600 were deducted from the profit. The house is only occupied by Shona and she works from home for 15 hours per week.

	£
Council tax	2,400
Electricity and gas	2,410
Insurance	360
Broadband costs	250
Repairs to farmhouse	2,180
	7,600

The business and private use of the farmhouse is as follows:

	Business	Private
	%	%
Farmhouse	25	75
Electricity and gas	30	70
Broadband	40	60

In 2024/25, Shona had claimed the flat rate for use of home.

2) Shona claims the fixed rate for motor expenses. She travelled 18,000 miles in her car of which 12,000 were for business purposes. No car expenses are included in the accounts.

3) Depreciation of £14,600 was deducted from profit. The only transaction in the year was the purchase of farm machinery for £38,000. There was no balance brought forward on the general pool or the special rate pool.

Shona had no other taxable income or gains in 2025/26 or previous years.

Continued

Continuation

Farm averaging

Shona's taxable profits over the last four years were as follows:

Year ended 31 March	Taxable profits
	£
2025	34,000
2024	48,000
2023	65,000
2022	67,000

Shona has not previously made any averaging claim.

Callum

Shona's friend Callum has approached your firm for advice and has become a client. He has started farming and has bought a herd of specialist beef cattle. He intends to keep the herd and sell the calves for beef. Shona has told Callum that she has a herd election in place and he has sent an email asking whether he should make a claim.

Requirements:

1) Calculate the Income Tax and National Insurance contributions payable by Shona for 2025/26, assuming no averaging claims are made. (9)

2) Explain what averaging claims can be made by Shona in relation to the year ended 31 March 2026. Recommend which claim should be made. Assume a taxable profit of £20,000 for the year ended 31 March 2026. Detailed calculations are not required. (3)

3) Draft an email to Callum explaining how the herd basis would work for his beef herd and the benefits of making a claim. (5)

Total (17)

3. Deepak has been trading for many years as a sole trader, operating a café.

On 1 December 2026, he intends to sell the café business to an unconnected individual, Khalt for £400,000. The tangible assets being sold to Khalt are expected to have the following market values at 1 December 2026:

	Note	£
Café premises	1)	275,000
Plant and machinery	2)	16,000
Stock		15,000
Cash and debtors		3,000
		309,000

1) The café premises had been gifted to Deepak by his father in 2020, when the market value was £200,000. The café premises had cost his father £80,000 in 2018. Deepak and his father had made a joint election for gift relief.

2) The cost and market value of the individual items of plant and machinery do not exceed £6,000.

Continued

Continuation

Options for potential reinvestment

Deepak is thinking about two options for reinvesting the sales proceeds from the business sale.

1) He can buy his friend's shares in Carpad Ltd which operates a bar. The shares will cost £300,000.

2) He will buy a freehold property for £300,000 which he will immediately bring into use as a bar. He will operate the business as a sole trader.

Deepak will make no other capital disposals in 2026/27 and has not previously made any claims for business asset disposal relief.

Alternative plan - Grant of a lease

Instead of selling the café business, Deepak may instead offer a 15-year lease on the café premises to Khalt for £75,000 and then charge an annual rent of £15,000. The value of the reversion is £175,000.

Requirements:

1) Assuming Deepak does NOT grant a lease on the café premises:

a) Explain and calculate his chargeable gains on the sale of the business. (6)

b) Explain his Capital Gains Tax liability including any reliefs that are available for the two options that Deepak is considering for reinvestment. Calculations are not required. (5)

2) Explain and calculate the Capital Gain position if Deepak decides to grant a lease on the café. (4)

Assume 2025/26 rules continue into the future.

Total (15)

4. Callum and Jim have run a business in partnership for several years. Partnership profits have been falling each year, so Callum and Jim agreed to admit a new partner into the business to try to improve its performance.

Lara joined the partnership on 1 June 2025.

Jim and Lara disagreed about the direction of the business and Jim left the partnership on 31 October 2025. It was agreed that Jim could keep one of the commercial properties owned by the partnership.

The partnership made a tax-adjusted trading loss in the year ended 31 March 2026 of £128,400.

Continued

Continuation

Partnership agreements

The Partnership agreements are as follows:

	Callum	Jim	Lara
Until 31 May 2025:			
Salary	£60,000	£24,000	n/a
Interest on capital	5%	5%	n/a
Profit share ratio	30%	70%	n/a
1 June 2025 - 31 October 2025			
Profit share ratio	40%	40%	20%
From 1 November 2025			
Profit share ratio	50%	n/a	50%

From 1 June 2025 there was no salary or interest on capital. Capital share ratios are the same as profit share ratios.

Callum has a balance on his capital account of £55,000 and Jim had a balance on his capital account of £35,000. Lara did not introduce any capital into the business.

Lara

Lara had income from employment of £70,000 in 2022/23.

She then became self-employed and had the following income from self-employment.

Year	£
2023/24	20,800
2024/25	20,290
2025/26	8,880

Her income from self-employment ceased when she joined the partnership.

She expects to receive a share of profits from the partnership of £10,000 in 2026/27 and £12,000 in 2027/28.

She has no other income.

The commercial property

On leaving the partnership, Jim took sole ownership of a commercial property which had cost £170,000 when purchased by the partnership in 2016. It had never been revalued by the partnership. It's market value on 31 October 2025 was £420,000.

Jim sold the property to an unconnected third party on 31 March 2026 for £440,000 incurring selling fees of £6,800.

Requirements:

1) Calculate each partner's trading loss allocation for the year ended 31 March 2026. (6)

2) Explain the loss reliefs available to Lara, identifying the amount of the Income Tax savings under each option. (7)

3) Calculate, with brief explanations, the chargeable gain arising in 2025/26 for each partner on the commercial property. (5)

Total (18)

5. Robert is a sole trader, and his only source of income is from his sole trader business. He prepares his accounts to 5 April each year and has always used the cash basis.

His business is growing and he is finding that the amount of tax he pays is being impacted by variation in the time that it takes customers to pay. He has, therefore, elected to use the accruals basis from 6 April 2025.

The business had the following assets at that date:

Asset	Purchase date	Cost
		£
Warehouse	1 June 2021	200,000
Fixtures and fittings	1 August 2021	28,000
Delivery van	18 October 2022	14,500
Car – CO_2 emissions 180g/km	2 December 2022	24,350

The warehouse was purchased new from a developer. £80,000 of the cost related to the land. It was immediately brought into trade use.

VAT

The business cumulative turnover passed the VAT registration threshold on 31 August 2025. Robert makes wholly standard rated supplies, and all purchases and supplies are made within the UK.

Angela

Robert took on his first employee, Angela, on 6 April 2026. He paid her a part-time salary of £18,000 and claimed the employment allowance. The business also contributed £540 to an occupational pension scheme for Angela. Prior to this, Robert had never employed anyone in the business.

Employing Angela has not improved the business or brought any extra revenue, but it has allowed Robert a better work-life balance. He is keen to identify the net cost to the business of employing Angela.

Trading profit for the year ended 5 April 2026 is £49,875, after deducting all costs of employing Angela.

Requirements:

1) Explain whether adjustments are required as a result of Robert changing from the cash basis to the accruals basis with effect from 6 April 2026. No calculations are required. (5)

2) Explain when Robert should have notified HMRC and become registered for VAT. (2)

3) Identify the records Robert must retain for VAT and the period for which they must be retained. (2)

4) Calculate the after-tax cost for Robert of employing Angela. (6)

Total (15)

6. You are a tax adviser working at a small accounting practice. Your firm provides compliance and advisory services to Nioma Ltd.

Nioma Ltd has the following brought forward losses from the year ended 31 March 2025:

	£
Trading losses	128,000
Capital losses	50,000

The company wishes to use brought forward losses as soon as possible but does not want to waste any losses.

You have calculated the following amounts for Nioma Ltd for the year ended 31 March 2026:

	£
Trading income	80,680
Non-trade loan relationship income	8,400
Non-trade loan relationship deficits	3,400
Qualifying charitable donations	2,000

In addition, Nioma Ltd sold some shares in the accounting period. Nioma Ltd owns a 5% shareholding in Ployt Ltd. Nioma Ltd's transactions in the shares of Ployt Ltd are as follows:

Date	Description
18 December 2014	Purchased 1,000 shares for £8.64 each
9 April 2016	Bonus issue 2-for-1. The market value of the shares before the bonus issue was £12.20.
23 June 2019	Rights issue 1-for-3 at £8.75 per share
8 March 2026	Purchased 2,000 shares for £9.20 each
16 March 2026	Sold 3,000 shares for £8.95 each

Nioma Ltd is looking to raise some additional finance and has offered to issue new shares to Dannie Colt, the Managing Director.

Dannie has asked for your firm to advise him on the potential share acquisition.

Requirements:

1) Calculate the chargeable gain on the disposal of the Ployt Ltd shares on 16 March 2026. (6)

2) Explain, with supporting calculations, how the trading losses and capital losses in Nioma Ltd will be used. State the amount of any losses carried forward at 31 March 2026. (5)

3) Explain the options available to your firm and the steps it should take, in response to Dannie's request, to comply with the Professional Rules and Practice Guidelines. (4)

Total (15)