

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 2 BUSINESS TAXATION

May 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. HMRC have recently completed an enquiry into the 2018/19 tax return of Mr Smith. As a result, they have made an amendment to his self-assessment for that tax year requiring him to pay an additional £12,000 of Income Tax. Mr Smith believes that this amount is incorrect.

Briefly explain the reasons that Mr Smith could give when making an appeal to HMRC, the rules for making an appeal and the steps which may be taken if the appeal cannot be determined by agreement with HMRC. (4)

2. A trader started a business on 1 December 2018. The first set of accounts for the five months to 30 April 2019 showed a profit of £5,000 and the accounts for the year ended 30 April 2020 showed a profit of £24,000. Unfortunately, due to poor trading conditions, the business ceased on 31 October 2020 with profits of £6,000 for that period.

Show the profits assessable for 2018/19, 2019/20 and 2020/21 and the basis periods of assessment for each year. (4)

3. Reece, a sole trader, moved to new business premises on 10 February 2021. Due to limited storage space, he destroyed all his personal tax and business records dated prior to 31 December 2017. He is now concerned that he should have retained more records. Reece's business prepares accounts to 31 December each year. Reece's business is not registered for VAT and he has no other sources of income or gains. He has always submitted his tax returns on time.

Explain whether Reece has retained sufficient records in connection with entries on his recent Income Tax returns, and identify whether HMRC could charge penalties for failure to retain records. (3)

4. Gorka ceased to trade on 30 November 2020. He has incurred the following expenses since cessation:

	£
Debt collection expenses	15,530
Legal fees to defend a claim for faulty workmanship in 2018	41,350
Private medical insurance premium	1,675

Explain whether relief is available for each of these expenses incurred by Gorka after cessation of trade and how relief will be obtained. Assume there is no post cessation income. (3)

5. Anja Ltd prepares accounts to 30 April 2020. HMRC did not issue a notice requiring Anja Ltd to submit a Corporation Tax return for the year ended 30 April 2020. Anja Ltd has failed to notify HMRC that it had taxable total profits for this accounting period. The directors have not done so as they do not have the funds to pay the Corporation Tax liability. They anticipate that the Corporation Tax liability for the year ended 30 April 2020 is £14,000.

Explain the penalties that HMRC could charge for the failure to notify chargeability to Corporation Tax for the year ended 30 April 2020. (4)

6. Axuml Ltd makes accounts up to 30 June each year and had the following results:

	<u>Year ended 30 June</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	£	£	£
Trade profits	2,000	2,900	1,000
Non-trading loan relationship	3,100		2,400
Non-trading loan relationship deficit		(15,000)	
Chargeable gain	2,500		2,600

Calculate the amount of non-trading loan relationship deficit unrelieved at 30 June 2020, assuming relief is claimed as soon as possible. (4)

7. Delimp Ltd changed accounting date in 2019 and now prepares accounts to 30 September each year. It has recently had the following results:

	<u>Year ended</u>	<u>Four months</u>	<u>Year ended 30</u>
	<u>31 May 2019</u>	<u>ended 30</u>	<u>September 2020</u>
	£	£	£
Trade profits (loss)	11,000	3,000	(36,000)
Chargeable gain	-	1,000	5,000
UK property business income	7,000	2,500	8,000
Donation to charity	(1,500)	(500)	(1,500)

Calculate the amount of losses carried forward at 30 September 2020, assuming relief is claimed as soon as possible. Ignore the temporary extension to carry back of losses announced at the Budget in March 2021. (4)

8. Fyshwin Ltd prepares accounts to 30 September each year and is selling surplus assets to realise funds for reinvestment in its business. On 1 February 2020, the company sold a chargeable asset for £34,500 realising a gain of £16,500. On 1 June 2020 it sold a painting for £4,000. The painting had been purchased for £8,000 in May 2019 plus costs of purchase of £600.

Calculate the net gain, the Corporation Tax payable thereon and amount of net proceeds available for reinvestment. (4)

9. The following two invoices were issued to Alphic Ltd, a VAT registered company.

Invoice 1 – from a solicitor

Thurspart Solicitors
25 High Street
Worcester
WR4 7GD

Alphic Ltd
50 Low Road
Worcester
WR6 1AB

Date: 30 September 2020

Ref: GJB/R45397

Professional charges	£2,500
VAT	<u>£500</u>
Total due	<u>£3,000</u>

Invoice 2 – from a stationery retailer

Paperchart
12 Market Square
Worcester
WR5 3DX

Paper	£9
Pen	£5
Total	<u>£14</u>
VAT 20%	
28/2/21	
VAT: GB 726 4563 21	

Explain whether VAT can be recovered in respect of each of the two invoices issued to Alphic Ltd. If not recoverable, identify all issues with the invoice.

(3)

10. A trader purchased materials for £350 plus VAT and fuel for £600 (VAT inclusive) for their van which is used exclusively for business purposes. They also purchased other goods for £1,000 plus VAT but paid within 30 days so received a 10% discount.

Calculate the amount of input VAT which may be claimed on the above transactions.

(4)

11. **Explain the terms ‘permanent differences’ and ‘timing differences’ in connection with the difference between the expected tax charged and the actual tax charged in financial statements. Give an example of each type of difference.**

(3)

PART II

12. Your manager has just received an email from a client, Mrs Pooch. Your firm has already filed her tax return for the year to 5 April 2021. The tax return shows a large tax liability due because of a large dividend she received during the year in addition to her salary of £25,000 for working as a nurse in an animal hospital.

To: Tax Manager
From: Mrs Pooch

Tax due 31 January 2022

Thank you for your recent letter. I see I have tax to pay of £6,000.

I want to ask you about my hobby. A few years ago I started grooming our own dogs, but then a neighbour asked me to do her dog. With a little help from social media and an advert in the local paper this has grown gradually and I'm now grooming about 20 dogs a week! I get £35 per dog so my hobby is certainly helping the family finances. I did recently have to spend £550 on new clippers but it's been worth it. I use my car to visit some of the dogs, but the mileage is very low and I have few other expenses. I fit the grooming around school times and my part time job for around 40 weeks of the year.

Someone said I was running a business, but this is a hobby for me. What do you think?

Kind regards

Mrs Pooch

Requirements:

Write an email to your manager in which you should explain:

- 1) **Why HMRC may consider Mrs Pooch's hobby to be a business, by reference to the relevant badges of trade. Give an estimate of her turnover, state the deadlines for notifying HMRC of commencement of a trade and state the maximum penalty she may incur for notifying late.** (8)
- 2) **The simplest methods for Mrs Pooch to account for the income and costs of her business including the cost of the clippers and travel costs.** (2)
- 3) **The National Insurance implications for Mrs Pooch, of her business. You are not required to perform calculations.** (3)
- 4) **The ethical issues arising from Mrs Pooch's email.** (3)

Total (16)

13. Noodle Ltd is a company with no associated companies. It previously prepared accounts for the year to 30 June 2019, but has now changed its accounting date to better suit its trade. The draft accounting profit for the 16 months ended 31 October 2020 is shown below:

	<u>Notes</u>	£	£
Turnover			2,500,000
Cost of sales			<u>(1,300,000)</u>
Gross profit			1,200,000
Less: expenses			
Sales costs		396,000	
Management costs		150,000	
Rates and insurances		85,000	
Repairs	(a), (b)	94,500	
Interest costs	(c)	39,500	
Depreciation		50,000	
Gain on sale of plant	(d)	<u>(5,000)</u>	
			<u>(810,000)</u>
Net profit			<u><u>390,000</u></u>

Noodle Ltd's bookkeeper has brought the following matters to your attention:

- (a) The company bought new plant with an estimated life of 20 years for £50,000 on 25 July 2019. Before the plant could be installed work had to be done on the factory floor and those costs are included in the repairs account analysed at (b) below. In addition, the company also purchased a new air purification unit costing £250,000 in November 2019 and a car costing £25,000 on 3 April 2020 which has CO₂ emissions of 45g/km.

- (b) The repairs cost in the draft accounts is analysed as follows:

<u>Date</u>	£	
12 July 2019	25,000	Repainting exterior of factory
31 July 2019	12,000	Preparing factory floor for new power supply for new plant bought in July 2019
30 September 2019	7,500	Final payment for building work for creating a new paved area outside the factory – work commenced on 1 September 2018
30 April 2020	35,000	Replacing existing single glazed windows with double glazed units
1 July 2020	<u>15,000</u>	Extending cold water supply to upper floor of building
Total	<u>94,500</u>	

Continued

Continuation

(c) Interest costs in the accounts are analysed as follows:

	£
Overdraft interest on trading account	33,500
Interest paid evenly over the period to director who has loaned the company funds on a long-term basis. The funds are used for non-trade purposes.	<u>6,000</u>
	<u>39,500</u>

(d) The company sold a piece of plant for £5,000 on 30 September 2019. Its original cost was £12,500, but it was fully depreciated in the accounts.

Other information

The tax written down values at 1 July 2019 were £25,000 on the general pool, and £6,000 on the special rate pool.

Requirements:

- 1) **Calculate the Corporation Tax due for the 16 months ended 31 October 2020. Briefly explain your treatment of the items in (b) and (c).** (14)
- 2) **State the dates by which Corporation Tax should be paid.** (1)
- 3) **Briefly explain what is normally included in a company's Articles of Association and the procedure to follow if the Articles are to be changed.** (5)

Total (20)

14. Oakshelf Ltd sold a property on 14 December 2020 for £320,000. Legal fees of sale were £15,000. Oakshelf Ltd is a trading company that traded from the property until it was sold.

The property was bought for £180,000 on 5 May 2013. Legal fees at that time were £12,500. In June 2018 they built an extension costing £40,000 with associated architect's fees of £12,000.

The company is now trading from a new property that it bought for £250,000 in January 2020. Oakshelf Ltd has entered into a contract to buy for £190,000 new fixed plant with an estimated useful life of 50 years. It expects to take possession of the plant and pay for it in June 2021.

Also in December 2020, Mr Bench sold an antique vase. The chargeable gain arising is in excess of £50,000. He is considering reinvesting at least some of the proceeds into an existing company of a friend or alternatively into a new company recently set up by his niece that has only two employees and less than £10,000 of net assets.

Requirements:

- 1) **Calculate the chargeable gain arising to Oakshelf Ltd if it claims relief in the most efficient way and show the base costs of its new assets.**
(7)
- 2) **Explain which reliefs, other than the annual exempt amount, may be available to Mr Bench to reduce any Capital Gains Tax he might have to pay and the conditions attached to those reliefs. You are not required to calculate his capital gain.**
(5)

Total (12)

15. Alf, Bob and Dan have been trading in partnership for many years making up accounts to 30 June each year. Dan is retiring on 30 June 2020. He has brought forward unrelieved overlap profits of £35,000. Alf and Bob are continuing in the partnership.

The tax-adjusted results of the partnership in recent years were as follows:

	£
Year to 30 June 2017	Profit 360,000
Year to 30 June 2018	Profit 300,000
Year to 30 June 2019	Profit 140,000
Year to 30 June 2020 (estimated)	Loss 400,000

Up to 30 June 2018, profits were split equally. From 1 July 2018, the apportionment gave Alf and Bob salaries of £15,000 and Dan a salary of £20,000. The balance of profits/ losses was shared equally.

Requirements:

- 1) Calculate Dan's assessable profits for the tax years 2017/18 to 2020/21, assuming that he claims terminal loss relief. (7)**
- 2) Explain briefly how Bob might use the loss incurred in the year to 30 June 2020, including any restrictions. You are not required to provide calculations. (5)**

Total (12)