

CIOT - ATT-CTA

Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

Receieved	61,700	
Suppliers	(26,000)	
Int	(700)	- allowable as related to the trade
Entertainment	140	- not allowable
Car	(2,500)	
Rent	(3000)	
Rent	(3000)	
CAs	(8500)	
Adjust TP	18,140	

CAs on machinery = 100% FYA

CAs = 8,500

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-----ANSWER-1-ABOVE-----  
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 -----ANSWER-2-BELOW-----  
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Answer-to-Question-\_2\_

	Main	SRPriv	AIA	
BF	30,000			
Additions				
Van			19,000	
Car			14,000	- employee will
pay tax on this so fully allowable				
Car		23,000		
@18%	5400			5400
@6%		1380 x 30%		414
@100%			33000	33,000
CF	24,600	22586	-	
Allowance				38814

$22,800 \times 20/120 = 3800$

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 -----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

Case law has dictated that there must be four factors present before an individual will be classed as an employee:

- 1 - mutuality of obligation
- 2 - wage paid to the worker
- 3 - personal service
- 4 - control

As Kev works exclusively for Ridley he could be obligated to complete the work that he is asked. Whereas if he was self-employed he would have a choice.

Kev is unable to get someone else to complete his job for him and therefore this is a sign of employment. If he was self-employed he would be able to send someone else instead.

Kev works on which ever project he is allocated on by Ridley and therefore has no control over the work that he does. If he was self-employed he would be able to chose what he did.

However, Kev does have to provide any invoice for his wages, which is a sign of self-employment as otherwise he would be paid automatically.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4\_

As Jason submitted the return late, the deadline for HMRC to raise a formal enquiry into the return is extended. The final date for raising an enquiry is extended to the end of the calendar quarter following the anniversary of the actual filing date of the return. Therefore they have until 30 April 22 to open their enquiry.

Jason may appeal for a number of reasons, however the notice of appeal must be given in writing within 30 days of the amendment or assessment as appropriate. The notice should give the grounds for the appeal.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

The flat rate reduction for private use is based on the number of non-business occupants per month. As there are 2 people in the property, they can claim a reduction of £500 per month, totalling £6000 for the year. The flat rate amount is intended to reflect the non-business proportion of expenditure on household goods and services, rent, utilities, food and non-alcoholic drinks.

Mortgage interest, business rates and council tax are not covered by the flat rate reduction.

Megan can decide each period whether to claim total expenses less the flat rate reduction or make a claim for the actual business expenditure

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-----ANSWER-5-ABOVE-----  
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 -----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

	YE18	YE19	YE20	YE21
YE22				
Trade p	28000	32000	47000	-
15000				
NTLR	3000	3000	3000	3000
3000				
Gains	(10000)		8000	
Net	15000	35000	58000	3000
18000				
CY				(3000)
ECB	(15000)	(35000)	(58000)	
CF s.45				
(18000)				
QCDS	wasted	wasted	wasted	wasted
wasted				
TTP	nil	nil	nil	nil
nil				

Loss memo  
 135000  
 (3000)  
 (58,000)  
 (35000)  
 (15000)  
 = 24000  
 (18000)  
 =6000 loss unrelieved at 1 April 22

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

CT600 must be submitted to HMRC online by the later of:  
12 months from the end of the period of account  
three months from the receipt of notice

31 March 2020 - filing 31 March 2021  
Notice received 10 February 2021 - filing 10 May 2021  
Therefore file on 10 May 2021

31 March 2021 - filing 31 March 2022  
Notice on 25 Aug 21 - filing 25 Nov 21  
Therefore file 31 March 22

31 July 21 - filing 31 July 22  
Notice on 25 Aug 21 - filing 25 Nov 21  
Therefore file 31 July 22

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question- 8\_

Plant - allowable expenditure as related to the trade  
Bank Interest - allowable expenditure as related tot he  
trade  
CT - can be deducted from NTLR income  
EMPLOYEE - LR therefore is taxable  
Debenture - LR therefore is taxable  
Property int - NTLR not allowable  
Costs - not allowable

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9\_

Proceeds                    500000  
Cost                        (270000)  
Indexation  
 $278.1-238.5/238.5 = 0.166 \times 270,000 = (44,820)$   
Gains                        185,180  
@ 80% =            148,144 eligible for roll over.

The full proceeds are reinvested there rollover relief can be claimed in for for 148,144. Leaving a chargeable gain on the 20% not used in the trade of 37,035 @19%.

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

$$2\% \times (25-1) \times 90,000 = 43,200$$

$$90,000 - 43,200 = 46,800 \text{ chargeable to income tax}$$

$$43,200 / (90,000 + 200,000) \times 120,000 = 17,876$$

Capital	43,200
Legal	(4000) - legal fees are an allowable cost
allowabel	(17,876) - allowable cost for proportion of disposal
Gain	21,324

the cost of the roof and redecoration will be deductible from her income tax as they are revenue in nature not capital.

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-----ANSWER-10-ABOVE-----  
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-----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

The amount of the gain that can be deferred by Khubaib is  
the lower of:

the gain - 75,000

the amount reinvested - 60,000

the specific amount claimed

Therefore he should claim an amount to utilise his AEA and  
losses BF totaling (12,300+5000) 17,300.

75,000 - 17,300 = 57,700 should be reinvested.

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

As Jeraldine is a VAT registered sole trader, they must account for VAT on all taxable supplies made in the course of business carried on by them, so Jeraldine must account for VAT on the sales from her garden furnitue business. They will offset against that liability any input tax on relevant purchases.

$12,000 \times 20/120 = 2000$  VAT overall

$3000 \times 20\% = 600$  VAT on deposit

8400 remaining

$8400 \times 20/120 = 1400$  VAT on final payment

For a supply of gppds, the basic tax point is the date the goods are delivered, made available or collected.

This is overrideen in two situations:

1. where there is a receipt of payment on a date before the basic tax point or the tax invoice is issued before the basic tax point date, then the earlier date becomes the actual tax point.

2 Wgeb tge above does not apply and a tax invoice is issued in the 14 day period after the basic tax point, then the invoice date becomes teh tax point.

For Jeraldine as a payment (10 Nov) is made before the basic tax point (28 March) the tax point is 10 November 2020.

However as Jeraldine paid a deposit there are two tax point for this supply. one being 10 november 2020.

and the second being 3 April 2022, as this was within the 14 day period after receiving the furniture.

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-----ANSWER-12-ABOVE-----  
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Paper: **ATT Paper 2 Business Taxation**

Part/Module: **Part 2**



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 -----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

PBT 365,750  
 Staff costs 2,300 - pension not paid within the period.  
 Bonus paid within 9 months so allowable  
 Suit - allowable - director will pay tax on this  
 Travel 1,050 - football not allowable as clients.  
 Staff entertaining is allowable  
 Legal 2,400 - new lease fees are not allowable  
 Assets all allowable  
 Dep 5100 - claim CAs instead. Finance lease allowable  
 Net 376,660

SBAs (443)  
 CAs (76302)  
 TTP 299,915

SBAs  
 Land - not allowable for SBAs  
 Legal 7,600 - legal costs are allowable  
 Demo 9,600 - demolition costs are allowable  
 Constr 160,000 - construction costs are allowable  
 = 177,200  
 177,200 x 3% x 1/12 = 443

Additional equipment is claimable under CAs

CAs	Main	SR	AIA	
Allowance				
BF	14,000	6,780		
Laser Cut			50,000	
EleWater			8,375	
Computer			15,000	
@18%	2520			2520

@6%	407		407
@100%		73,375	73375
Total			
76302			

Dr Cash	2,500
Dr Dep	4,500
Dr loss	1000
Cr assets	8000

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-----ANSWER-13-ABOVE-----  
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 -----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

	S	A	J
To 1 April (21,250)			
Less Int (4900)	4900		
(26,150)			
5:3:2	(13,075)	(7845)	(5230)
to Dec 21 (63750)			
Salary (25000)			25000
(88750)			
5:4:1	(44375)	(35500)	(8875)
Total	(52550)	(32450)	10,895

s.64

Losses may be set against net income. This is total income less deductible payments but before PA. PA therefore could be wasted. The loss can be set against the net income of the tax year of loss and/or the preceeding tax year.

S.71 - no capital gains so not relevant

Sch 2 FA 2021

An addition to s.64 is that losses can be carried back three years against trade profit, where s.64 has already been claimed. This operates on a LIFO basis. The maximum loss which may be carried back against trade profits of the earlier two years is limited to £2m in total.

Where Sadiq pledges the credit of the firm for a purpose that is apparently not connected with the firm's ordinary course of business, the firm is not bound, unless Sadiq is in fact specially authorised by the other partners. This does not affect any personal liability incurred by Sadiq. If the partners have agreed to restrict the power of any one or

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more of them to bind the firm, the firm is not bound by anything done in contravention of the restriction with respect to persons who knew of the agreement. The key point to note about the authority of partners to bind the firm is that, other than when the partner has actual authority depends on the perception of the third party. If the third party genuinely believes that the partner has authority, the partner is likely to bind the firm. However, a partner does not bind the other partners if they do not have authority to act for the firm in this case, and the person whom they were dealing either knows that they had no authority or doesn't know that they are a partner.

A firm should always be aware of the possibility that a conflict may arise and of the fact that this may impair the ability to give independent advice to John and Sadiq.

A firm must seek not only to avoid conflicts of interest but also to manage situations where there may be perceived conflicts of interest. A member must consider their position and their actions in the light of both their own views about whether a conflict exists and how the situation will be perceived by third parties.

A firm should acknowledge the existence of a conflict or potential conflict as soon as they become aware of it and should immediately seek a solution to resolve it.

Where appropriate, a firm should inform the client of the existence of the conflict. In some circumstances, we should consider advising the client to obtain independent advice on whether it is in the client's interest for a member to continue to act.

Where a conflict of interest cannot be managed satisfactorily in another way, a firm should decline to act for one or more clients.

How the conflict is handled should be noted on file and, where possible, confirmed in writing to the client, including any agreement where a member continues to act. These arrangements should be regularly reviewed by a firm.

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question-\_15\_

Our

address  
Address  
Date

Ref no :

Dear Sasha

Thank you for approaching us in connection to the disposal of you business Sashenka Ltd. I have set out out initial thought on the tax implications below.

Sale of shares

The sale of the shares in your comapny will calculate a gain of proceeds (300,000) less the inital cost of the shares (100). Indexation will be allowed as the shares were purchased in 1985.

Sale of property

As the property was rented tot he company at 50% of market value some relief on the disposal of the property will be relievable. The gain of 50,000 x 50% - 25,000 will be eligible for BADR relief as the disposal of the property is an associated disposal.

Calculation of gain

The two gains will be added together, or if there is a capital loss, it will be netted against any gains.

Any capital loss BF will be deducted from the net gain although the AEA is deducted beofre relief is given to capital losses BF.

The taxable gain will be taxed at 10% up to the basic rate band and 20% thereafter. The amount taxable at the basic rate depends on hwo mcuh of the band remains after your

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income has been taxed. However if BADR is available, then the gain will be taxed at 10% up to £1m.

BADR

BADR may be available on the sale of the shares and property. The lifetime limit is £1m.

To qualify for BADR, for two years prior to the disposal, you need to have owned shares in Sashenka, work for the company and own at least 5% of the share capital and 5% of the voting rights. As you are disposing of at least 5% of your shareholding this is a withdrawal from the business.

As you are disposing of the property that is used in the business, this may qualify for BADR as an associated disposal. To qualify, the property needs to have been used by the company for at least two years, the property must have been owned by you for at least three years. The relief available is restricted on this as you charged the company rent to use the property and therefore the amount below MV is allowable for BADR but not the proportion that rent is charged on. IE 50% relief.

I hope the above makes sense, but please let me know if you have any questions.

Many thanks  
Adviser

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----  
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Answer-to-Question-\_16\_

19/20

1 Feb 20 - 5 April 20

$2/15 \times 36,000 = 4800$

Expenses

$48 \times 15 \times 30\% = 216 \times 2/15 = 29$  personal use add back

$2875 \times 2/15 = (383)$  allowable

Training (2,600) - pre tradinign expenditruue with 7 years

Repiars (4,600) - pre tradinign expenditruue with 7 years

- revenue in nature

Website in CAs as IFA

CAs (6036)

Loss (8790)

CAs

$6,000 \times 100\% = (6,000)$  deductible

$1,200 \times 18\% = 216 \times 15/12 = 270$

$270 \times 2/15 = 36$

20/21

No AP ending in 2021/22 (6 April 20 - 5 April 21)

Therefore second tax year is 6Arp 20 - 5 Apr 21

$12/15 \times 36,000 = 28,800$

$2875 \times 12/15 = (2300)$  allowable

21/22

6 April 21 - 5 April 22

75,000

Robert will be required to register for VAT if either:

1- the value of taxable supplies made in the previous 12 months exceeds the VAT threshold



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2- at any time there are reasonable grounds for believing that the value of taxable supplies to be made in the next 30 days on their own will exceed the vat threshold

The VAT threshold is £85,000

Robert will be required to register for VAT in the month that in the previous 12 months his taxable supplies exceed £85,000.

From this date, HMRC must be notified within 30 days from the end of the month in which the limit is breached. He will then charge VAT on supplies from the first day of the following month.

Assuming that Robert met the threshold in April 2022, he will need to notify HMRC by 30 May 2022, and then he will charge VAT from 1 June 22.

Where:

1 - goods acquired for the business (within the previous 4 years) are still owned at the date of registration

Or

2- services are supplied for the purposes of the business in the 6 months prior to registration.

Input tax on these items can be recovered on a trader's first VAT return once they have registered.

Therefore Robert will be able to recover the VAT on the office equipment purchased in January 2022 provided he has not disposed of it. If Robert has not yet registered for VAT, he can still claim the VAT back prior to January 2026 if the goods are still owned.

Robert will pay class 2 NICs of 3.05 per week for the 2019/20 tax year being £159. This is due for payment as part of the balancing payment for the tax year. Therefore 31 January 2021.

Where profits for the tax year do not exceed £6,515 there is no class 2 NICs payable. Robert can still choose to pay class 2 to preserve his entitlement to state pension and

other state benefits.

Robert will also need to pay class 4 NICs at 9% on profits between 9,568 and 50,270. Anything above 50,270 will be charged at 2%.

Payment on account are due on 31 January in the tax year (2020) and 31 July (2020) following the tax year based on the previous years liability

Losses are negative earnings for Class 4 NICs. This is the case even if they have been fully utilised for income tax purposes. Losses used against non-trading income are still available to be used for Class 4 NICs