



May 2022 Examination

PAPER 2

Business Taxation

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1

	£	
Cash receipts (66,000 – 4,300)	61,700	(1/2)+(1/2)
Payments to suppliers	(26,000)	(1/2)
Payments to buy machinery	(8,500)	(1/2)
Interest (restricted to £500)*	(500)	(1/2)
Entertaining – disallowed	-	(1/2)
Car lease costs – fully allowable	(2,500)	(1/2)
Rent paid in period 3,000 + 3,000	(6,000)	(1/2)
Tax adjusted trading profit	<u>£18,200</u>	
		(4)

*Tutorial note: credit given for any reference to £500

2

	FYAs @ 100%	General pool	Private use asset	Total CAs
	£	£	£	£
<u>12 months ended 31 March 2022</u>				
Tax written down value b/f		30,000		
Car (emissions 0g/km)	14,000			
FYA @ 100%	<u>(14,000)</u>			14,000 (1/2)
Van (£22,800 * 5/6) (1/2)		19,000		
AIA		<u>(19,000)</u>		19,000 (1/2)
Car			23,000	
		30,000		
WDA @ 18% (1/2)		<u>(5,400)</u>		5,400
WDA @ 6% (1/2)			<u>(1,380)</u>	*30% (1/2) 414
Tax written down value c/f	<u>£-</u>	<u>£24,600</u>	<u>£21,620</u>	(1/2)
Total allowances				<u>£38,814</u>
				(4)

3

Mutuality of obligation (1/2) – Kev is given projects to manage. He is not able to pick and choose which projects he likes. (1/2)

Personal service (1/2) – Kev cannot send someone else to do his job. (1/2) He has had specialist training to work on the projects he has been given. (1/2)

Control (1/2) – Kev does not have much control over his work as he has to comply with the schedules set out by Ridly Ltd. (1/2)

Financial risk (1/2) – Kev is getting paid promptly each month after submitting an invoice. (1/2) He is not having to bear the cost of mistakes he makes on projects he manages. (1/2)

Number and length of engagements (1/2) – Kev now works exclusively for Ridly Ltd which is more indicative of employment. (1/2)

Max (4)

4

As Jason submitted his 2019/20 tax return late (after 31 January 2021) the deadline for HMRC to raise an enquiry is extended to 30 April 2022^(1/2). This means the enquiry is within the time limit. ^(1/2)

Jason must give notice of appeal in writing^(1/2) by 31 May 2022^(1/2) and should state the grounds for the appeal. ^(1/2)

Max (2)

5

A fixed rate monthly adjustment can be made where a trader uses their business premises as their home. ^(1/2) The adjustment is deducted from the actual allowable business premises costs to reflect the private portion of the costs^(1/2). The monthly adjustment is based on the number of occupants^(1/2) of the business premises as a home each month. In Megan's case there are two ^(1/2) occupants so the monthly adjustment would be £500. ^(1/2) Megan would reduce the allowable business premises costs by £6,000 for the year ended 31 March 2022. ^(1/2)

(3)

6

	<u>Year ended 31 March 2018</u>	<u>Year ended 31 March 2019</u>	<u>Year ended 31 March 2020</u>	<u>Year ended 31 March 2021</u>	<u>Year ended 31 March 2022</u>
	£	£	£	£	£
Trade profits	28,000	32,000	47,000	-	15,000
NTLR	3,000	3,000	3,000	3,000	3,000
Chargeable gain	-		^{(1/2)*} -		
Current year relief				^(1/2) (3,000)	
Loss carried back 3 years	^(1/2) (31,000)	^(1/2) (35,000)	^(1/2) (50,000)		
Loss c/f					^(1/2) (16,000)
QCD					(1,000)
Taxable Total Profits	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£1,000</u>

*Tutorial note: this 1/2 is for the £8,000 gain reduced by the £10,000 capital loss.

Use of trading loss:	£	
	135,000	
Year ended 31 March 2021	(3,000)	Current year
Year ended 31 March 2020	(50,000)	Carry back 3 years
Year ended 31 March 2019	(35,000)	
Year ended 31 March 2018	(31,000)	
Year ended 31 March 2022	<u>(16,000)</u>	Carry forward (total profits)
Trading loss unrelieved at 1/4/22	<u>£nil</u>	
Donations to charity unrelieved at 1/4/22	<u>£4,000</u>	^(1/2)
(£1,000 + £1,000 + £1,500 + £500)		
Capital loss unrelieved at 1/4/22	<u>£2,000</u>	^(1/2)

(4)

Tutorial note: Marks for use of loss awarded wherever shown clearly (in TTP calculation or loss memo)

7

A Corporation Tax return must be filed by the later of 12 months from the end of the period of account and 3 months from the date the filing notice is served. (½)

For the year ended 31 March 2020 the deadline was three months from the date of the filing notice so 10 May 2021. (½)

For the 16 months ended 31 July 2021 the deadline will be 12 months from the end of the period of account. (½) Two Corporation Tax returns will be required, one for 12 months ended 31 March 2021 (½) and one for 4 months ended 31 July 2021 (½). Both must be filed by 31 July 2022. (½)

(3)

8

Interest payable on the loan to buy the plant and the bank overdraft interest are trade related (½)(½) and will be an allowable expense in calculating trading profit. (½)

Interest payable on late payment of Corporation Tax is a non-trading loan relationship debit. (½)

The debenture interest receivable and the interest from the loan to the employee are non-trading loan relationship credits. (½)(½)

The interest payable on the loan to purchase the investment property together with the associated costs of raising the finance are non-trading loan relationship debits. (½)(½)

(4)

9

	<u>Non- business</u>	<u>Business</u>	<u>Total</u>
	£	£	
Proceeds (20:80)	100,000	400,000	(½)
Cost (20:80)	(54,000)	(216,000)	(½)
Indexation allowance (278.1-238.5)/238.5 = 0.166 x 270,000 (20:80)	<u>(8,964)</u>	<u>(35,856)</u>	(½)
Gain before reliefs	37,036	148,144	
Less rollover relief (Balance)	-(½)	<u>(98,144)</u> (½)	
Gain	<u>£37,036</u>	<u>£50,000</u>	<u>£87,036</u>

Working

Rollover relief on new warehouse

Proceeds not reinvested = £400,000 - £350,000 (½)
= £50,000

(3)

10

	£	
Capital element of premium		
2% x (25-1) (½) x £90,000 (½)	43,200	
Less: Legal fees	(4,000)	(½)

Less: Redecoration (not allowable cost of disposal)	-	(1/2)
	<u>39,200</u>	
Less: Cost		
120,000 x 43,200(1/2)/(90,000(1/2) + 200,000) (1/2)	(17,876)	
Roof repairs not enhancement expenditure	-	(1/2)
Gain	<u>£21,324</u>	(4)

11

The amount of reinvestment relief that can be claimed is the lower of the gain (£75,000) (1/2), the proceeds invested (£60,000) (1/2) or the amount claimed.

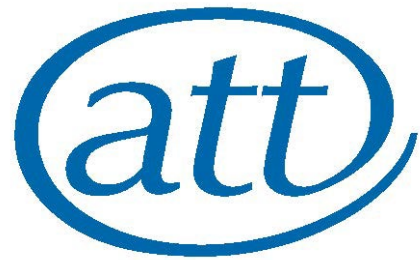
Khubaib should utilise his annual exempt amount of £12,300(1/2) and the losses brought forward (1/2) and only claim relief for £57,700. (1/2) Max (2)

12

For a supply of goods, the basic tax point is the date the goods are delivered, made available or collected. (1/2) The basic tax point for the furniture is 28 March 2022. (1/2)

This is overridden by the payment date if received before the basic tax point. (1/2) The date of payment of the deposit (10 November 2021) will be the tax point for £3,000.(1/2) The VAT amount is £600. (1/2)

The basic tax point can be overridden by the invoice date if this is issued within 14 days(1/2). The tax point for the balance of £8,400 will be the invoice date of 3 April 2022. (1/2) The VAT amount is £1,400. (1/2) Max (3)



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Business Taxation

Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

13. Tarias Ltd

1) Corporation Tax computation

Adjustment to profit	£	
Profit per draft accounts	365,750	
Add:		
Bonuses allowed as relate to the year	-	1/2
Pension contributions disallowed as not paid in year	2,300	1/2
Suit allowed as taxed as remuneration	-	1/2
Customer ticket cost	1,050	1/2
Staff ticket costs allowed	-	1/2
Legal costs re lease disallowed,	2,400	1/2
Accountancy and debt collection allowed	-	1
Finance lease interest allowed	-	1/2
Depreciation	7,400	1/2
Less: allowable as finance lease depreciation	(2,300)	1
Profit adjusted for tax purposes	<u>376,600</u>	(6)

Capital allowances

	£	General pool £	Special rate pool £	Allowances £	
WDV b/f		14,000	6,780		
Electrical and water systems AIA	8,375 <u>(8,375)</u>			8,375	1/2* 1
Second hand plant AIA	50,000 <u>(50,000)</u>			50,000	1
Computer equipment Super deduction (130%)	15,000 <u>(19,500)</u>			19,500	1
		14,000	6,780		
WDA 18%		(2,520)		2,520	1/2
WDA 6%			(407)	407	1/2
WDV c/f		<u>11,480</u>	<u>6,373</u>		
Total allowances				<u>80,802</u>	(4 1/2)

*Tutorial note: for recognition that plant and not SBA expenditure

Structures and buildings allowance

	£	
Cost of land (not allowed)	-	1/2
Legal and planning fees (not allowed)	-	1/2
Demolition costs	9,600	1/2
Construction costs	160,000	1/2
Qualifying expenditure	<u>169,600</u>	
Allowance 3% x 169,600 x 1/12	<u>424</u>	1 1/2** (3 1/2)

** Tutorial note: 1/2 for 'x 3%' and 1 for 'x 1/12'

Tax computation

	£	
Profit adjusted for tax purposes	376,600	
Capital allowances	(80,802)	1/2

Structures and buildings allowance	(424)	$\frac{1}{2}$	
Taxable total profits	<u>295,374</u>		
		(1)	(15)

2) Journal entries for sale of car

(credit will be given for entries shown within 'T' accounts)

	Debit £	Credit £	
Motor vehicle cost		8,000	$\frac{1}{2}$
Disposal account	8,000		$\frac{1}{2}$
Disposal account		4,500	$\frac{1}{2}$
Motor vehicle depreciation	4,500		$\frac{1}{2}$
Bank	2,500		$\frac{1}{2}$
Disposal account		2,500	$\frac{1}{2}$
Profit and loss account	1,000		$\frac{1}{2}$
Disposal account		1,000	$\frac{1}{2}$

Closure of Profit and loss account not needed for full marks.

Max (3)

Total (18)

14. Sadiq, Anya and John

1) Allocation of loss

Loss for the year ended 31 December 2021	£	<u>(85,000)</u>	
Period ended 31 March 2021	3/12	(21,250)	$\frac{1}{2}$
Period ended 31 December 2021	9/12	(63,750)	

		Total	Sadiq	Anya	John	
Period to 31 March 2021						
Interest	(245,000 x 8% x 3/12)	4,900	4,900			1
Balance	50:30:20	<u>(26,150)</u>	<u>(13,075)</u>	<u>(7,845)</u>	<u>(5,230)</u>	$\frac{1}{2}$
		(21,250)	(8,175)	(7,845)	(5,230)	
Period to 31 December 2021						
Salary	50,000 x 9/12	37,500			37,500	$\frac{1}{2}$
Balance	50:40:10	<u>(101,250)</u>	<u>(50,625)</u>	<u>(40,500)</u>	<u>(10,125)</u>	$\frac{1}{2}$
		(63,750)	(50,625)	(40,500)	27,375	
Total		(85,000)	(58,800)	(48,345)	22,145	
Reallocation	58,800:48,345		12,153	9,992	(22,145)	1
		<u>(85,000)</u>	<u>(46,647)</u>	<u>(38,353)</u>	<u>-</u>	(4)

2) Loss relief available to Sadiq

Sadiq can claim relief for his share of the loss for the year ended 31 December 2021 against his total income for the tax year 2021/22 ($\frac{1}{2}$) and/or 2020/21 ($\frac{1}{2}$). The claims are independent ($\frac{1}{2}$) and can be made in any order ($\frac{1}{2}$). The loss that can be relieved against other income ($\frac{1}{2}$) is restricted to the higher of £50,000 ($\frac{1}{2}$) or 25% ($\frac{1}{2}$) of his adjusted total income for the year ($\frac{1}{2}$). After a claim against total income (in either or both years) ($\frac{1}{2}$), the loss can also be carried back

three years under extended loss provisions in FA 2021 (½) against profits of the same trade (½). The loss claim is an all or nothing claim and so his personal allowances may be wasted (½).

Max (4)

3) Employment of additional staff

As Sadiq is a partner in the firm, he can act as a principal to bind the other partners to a contract (1). Even though it does not seem he has not been explicitly authorised to employ Tina (1), under the law of agency he has implicit authority to engage staff as this is within the usual authority of a partner (1).

(3)

4) Partnership dispute

- 1) You can act for either John or Sadiq (½), normally whichever has approached you first (½). You should then inform the other person of your decision (½).
- 2) You could act for John and Sadiq (½), provided:
 - (a) All the facts are disclosed (½) and they are told that they can seek independent advice (½).
 - (b) Ethical safeguards are put into place, such as separate teams (½).
 - (c) Both clients agree in writing (½).
 - (d) No preference is given to either John or Sadiq (½).
- 3) You advise both that you can't act for either party (½).

Max (4)

Total (15)

15. Sasha – sale of business

Advisers Ltd
Anytown
Anywhere

Date

Sasha XX
Sashenka Ltd
Anytown
Anywhere

Dear Sasha

Format 1

Telstet Limited Offer

Further to your telephone call today about the offers you have received from Telstet Ltd, I have set out below the consequences of both options.

(a) Sale of shares

If you sell the shares in the company, then you will be charged to Capital Gains Tax on the difference between the sales proceeds and the cost of your shares (½). The gain could be reduced by any capital losses that you make in the tax year (½) and any capital losses brought forward (½). The net gains for the year are also reduced by the annual exempt amount to give the taxable gains (½).

As you are the director (½) of Sashenka Ltd, a trading company, (½) and own at least 5% (all) of the share capital (½) and these conditions have been met for two years (½), the disposal would qualify as a material disposal of business assets (½). You will therefore be able to claim business

asset disposal relief (½) on the sale of the shares, which means that you will pay tax at 10% on the gain (½).

You will also be chargeable to Capital Gains Tax on the gain on the shop of £50,000 (½).

As you are selling the shop at the same time as the shares (½), then the sale of the shop will also qualify for business asset disposal relief (½) as an associated disposal (½). You are disposing of an asset that you have owned for more than 3 years (½) and which has been used by Sashenka Ltd for more than 2 years (½) as part of your withdrawal from the business (½). However, the relief will be restricted by 50% due to the rent charged to the company (1). The balance of the gain will be taxable at 20% as gains qualifying for business asset disposal relief are deemed to use the basic rate band first (1).

(b) Sashenka Ltd sells assets

If Sashenka Ltd sells its assets then Corporation Tax at 19% (½) will be payable on the chargeable gains arising on the offices, based on the difference between the proceeds of £250,000 and the cost of £75,000 (½). Indexation allowance for the period from the date of purchase to December 2017 will also reduce the gain (1).

If there are any queries, then please contact me.

Yours sincerely

An Adviser

Marks will be given for any relevant points.

Max (12)

16. Robert – assessable profit

1) Income tax computation

		£	£	
Profit per draft accounts			36,000	
Add back				
Broadband	(48 x 15 x 30%)		216	½
Rail tickets	Ordinary commuting		2875	½
Less:				
Pre-trading expenditure				
Training courses	Not allowed		-	½
Redecoration costs	Allowed as repair of a usable asset		(4,600)	1
Capital allowances				
Pre-trading expenditure				
Website		1,200		½
Computer equipment	(market value)	5,400		½
		<u>6,600</u>		
AIA		<u>(6,600)</u>	(6,600)	½
Adjusted profit			<u><u>27,891</u></u>	(4)

Assessable profit

£

2019/20				
1 February 2020 – 5 April 2020	2/15 x 27,891	<u>3,719</u>	1	
2020/21				
6 April 2020 – 5 April 2021	12/15 x 27,891	<u>22,313</u>	1	
2021/22				
1 May 2020 – 30 April 2021	12/15 x 27,891	<u>22,313</u>	1	
Overlap profit				
1 May 2020 – 5 April 2021	11/15 x 27,891	<u>20,453</u>	1	
			(4)	

(8)

2) VAT registration

Robert will be required to register if his taxable turnover over a previous 12 month rolling period (½) exceeds £85,000 (½). He will have 30 days to notify HMRC following the end of the month in which he exceeds the threshold (½) and will be registered from the first day of the following month (½).

The taxable supplies of the company in which Robert is a shareholder will not affect when Robert registers as this is a separate person for VAT purposes (½).

He will be able to recover the input VAT on the office equipment (½) provided he still owns it at the date of registration (½) and the costs were no more than 4 years before the date of registration (½).
Max (4)

3) National insurance

Robert is liable to pay Class 2 National Insurance contributions (½) with effect from 1 February 2020 (½). He is also liable to pay Class 4 National Insurance contributions on his profits from 2019/20 onwards (½). He will not be required to make any contributions for 2019/20, because the profits do not exceed the small profits threshold and lower profits limit respectively (1). He may however, want to make Class 2 contributions for 2019/20 to preserve his entitlement to state benefits (1).
Max (3)

Total (15)