



Practical Tax People

Association of  
Taxation Technicians

# May 2015 Examination

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## PAPER 2

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### Business Taxation & Accounting Principles

Part I Suggested Solutions

1.

	Main pool	Special rate Pool	Allowances
	£	£	£
Additions:			
Silver car		18,000	½
Blue car	12,000		½
Black car		20,000	½
Disposal		<u>(15,000)</u>	½
		23,000	
18% x 9/12	(1,620)		1,620 ½
8% x 9/12		(1,380)	<u>1,380</u> ½
			<u>3,000</u>

½ mark for 9/12 and ½ for no private use restriction

Total (4)

2.

Income tax under self assessment is payable in up to three instalments. The first instalment (payment on account) is due on 31 January in the year of assessment, ( ½ ) the second instalment is due on 31 July following the end of the year of assessment ( ½ ) and the balance is due on 31 January following the end of the year of assessment. ( ½ )

Payments on account are based on one half of the tax due for the previous year. ( ½ ) However, a claim to reduce the payment on account can be made if the tax liability for the current year is likely to be less than the previous year. ( ½ )

Penalties apply to balancing payments due by 31 January following the tax year, but not to the payments on account. ( ½ )

- 30 days late - an initial penalty of 5% of the tax unpaid at that date. ( ½ )
- 6 months late - a further penalty charge of 5% of the tax that is still unpaid. ( ½ )
- 12 months late - a further penalty charge of 5% of the tax that is still unpaid. ( ½ )

Total max (4)

3.

If an election for herd basis is made the animals are excluded from trading stock ( ½ ). The election is irrevocable (1/2) and cannot be made if accounts are drawn up on the cash basis (1/2) The cost of maintaining the herd is allowable for tax. ( ½ ) Profits on the disposal of the whole or a substantial part of the herd are not taxed. ( ½ ) The net cost of replacing animals is allowable ( ½ ) and the profit from a minor disposal (less than 20%) ( ½ ) is treated as income. ( ½ )

Total max (3)

4.

HMRC may notify their intention to enquire into a return 12 months after the day on which the return is filed. (  $\frac{1}{2}$  ) If the return was filed late (  $\frac{1}{2}$  ) or an amendment was made (  $\frac{1}{2}$  ) they have 12 months from the quarter day (31 January, 30 April, 31 July and 31 October) ( 1 ) after the day on which the return or amendment was filed. (  $\frac{1}{2}$  )

On completion of the enquiry, HMRC will issue a closure notice and the taxpayer has 30 days from the date of the notice to appeal. (  $\frac{1}{2}$  ) Late appeals may be allowed if HMRC are satisfied that there were good reasons for the late appeal. (  $\frac{1}{2}$  )

Total max (3)

5.

2013/14 - 12 mths to 30.4.13

8/12 x £36,000	24,000	$\frac{1}{2} + \frac{1}{2}$
4/16 x £46,000	<u>11,500</u>	$\frac{1}{2}$
	<u>£35,500</u>	

2014/15 – 12 mths to 30.4.14

12/16 x £46,000	<u>£34,500</u>	$\frac{1}{2} + \frac{1}{2}$
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2015/16 – Y/E 30.4.15

	<u>£38,000</u>	$\frac{1}{2}$
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Overlap – b/f

3/12 x £12,000	3,000	$\frac{1}{2}$
8/12 x £36,000	<u>24,000</u>	$\frac{1}{2}$
	<u>£27,000</u>	

(4)

6.

	£	
Corporation tax £65,000 @ 21%	13,650	$\frac{1}{2}$
Marginal relief 1/400 x (225,000 – 65,000)	<u>400</u>	$\frac{1}{2} + \frac{1}{2}$
Tax due 1 January 2016	<u>13,250</u>	$\frac{1}{2}$

Limit for small profits rate

£300,000 / 5 = 60,000 x 9/12 = £45,000  $\frac{1}{2} + \frac{1}{2}$

Limit for marginal relief

£1,500,000 / 5 = 300,000 x 9/12 = £225,000  $\frac{1}{2} + \frac{1}{2}$

Total (4)

7.

	£	
Sale proceeds	250,000	½
Costs of sale (excluding repairs)	<u>(10,000)</u>	½ + ½
	240,000	
Cost of property		
(2,500,000 + 500,000) x $\frac{250,000}{4,750,000 + 250,000}$ =	150,000	½ + ½ + ½ ½ + ½
Gain	<u>£90,000</u>	
		Total (4)

8.

A UK-established person is liable to be registered for VAT if at the end of any month their taxable supplies in the 12 months ( ½ ) ended on the last day of that month exceed £81,000, ( ½ ) unless they can satisfy HMRC that their taxable supplies in the next 12 months ( ½ ) will not exceed £79,000. ( ½ )

HMRC must be notified within 30 days of the end of the month in which the yearly limit is exceeded ( ½ ) and registration is compulsory from the beginning of the next month. ( ½ )

Liability to register also arises if at any time taxable supplies in the next 30 days ( ½ ) are expected to exceed £81,000. ( ½ ) HMRC must be notified within 30 days after the day on which the liability arose. ( ½ ) Registration is effective from the start of the 30 day period. ( ½ )

Total max (4)

9.

A taxable person for VAT purposes is one who has made taxable supplies in the last 12 months exceeding the VAT registration limit. ( ½ ) This can be an individual, a partnership, a company or other legal entity. (1/2) A person may also become a taxable person by registering voluntarily if they make taxable supplies or intend to make taxable supplies. ( ½ )

Max 1

A taxable person must account for VAT on all taxable supplies made in the course of business carried on by them ( ½ ) so Deidre must account for VAT on the sales from her dog grooming business in addition to those from the hairdressing business. ( ½ ). She will offset against that liability any input tax on relevant purchases. (1/2)

Max 1

Total max (2)

10.

Revenue expenditure is charged to the profit and loss account when it is incurred and is expenditure incurred in: ½

- The acquisition of assets required for conversion into cash (ie goods for resale) ½
- The manufacturing, selling and distribution of goods and the day to day administration of the business ½
- The maintenance of the revenue earning capacity of the fixed assets (ie repairs). ½

Capital expenditure is held in the balance sheet and is incurred in: ½

- The initial setting up of the business ½
- The acquisition of fixed assets required for continuing use in the business and not for resale ½
- The alteration or improvement of assets for the purposes of increasing their revenue earning capacity. ½

Total (4)

11.

Fixed Asset

	£		£	
B/fwd	<u>15,000</u>	Disposal account	<u>15,000</u>	1

Depreciation

	£		£	
Disposal account	<u>12,500</u>	B/fwd	<u>12,500</u>	1

Disposal of Fixed Asset

	£		£	
Cost	15,000	Depreciation	12,500	1
Profit on sale	<u>2,500</u>	Proceeds of sale	<u>5,000</u>	1
	<u>17,500</u>		<u>17,500</u>	

Total (4)