Tolley® Exam Training

ATT PAPER 2

BUSINESS TAXATION

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

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PQ662

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INTRODUCTION

This Pre Revision Question Bank for ATT Paper 2 contains four SFQ tests and 10 exam standard long questions all with answers updated to Finance Act 2023 and Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written questions with no question choice. The paper is split into 2 parts:

Part I consists of "short form" questions ("SFQs") worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for 'format'** within the long form questions in Part II . There are simply **58 marks for technical content and 2 marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate's presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocation for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as "not" or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

LAW AND ETHICS

The ATT Paper 2 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is “Principles”, ie you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (6th edition) that are included in the Paper 2 syllabus are:

Chapter 6 Criminal and Civil Law
Chapter 12 Sole Traders and Partnerships
Chapter 17 Company Law: The Basics
Chapter 18 Company Law: Share and Loan Capital
Chapter 19 Company Law: Sale of Shares and Assets

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)
Chapter 4 New clients and engagements
Chapter 5 Client service
Chapter 6 Objectivity (including conflicts of interest)
Chapter 7 Other client handling issues
Chapter 8 Charging for services
Chapter 9 Complaints
Chapter 10 Ceasing to act

PCRT (2023)
Chapter 19 The Fundamental Principles
Chapter 20 The Standards for Tax Planning
Chapter 21 Help sheet A: Submission of tax information and 'tax filings'
Chapter 22 Help sheet B: Tax advice
Chapter 23 Help sheet C: Dealing with errors
Chapter 24 Help sheet C2: Dealing with errors - Members in business
Chapter 25 Help sheet D: Request for data by HMRC
Chapter 26 Help sheet E: Members’ personal tax affairs

CONTENTS

SHORT FORM QUESTIONS

Test A
Test B
Test C
Test D

LONG QUESTIONS

1 Derek Nightlark
2 Thomas Harrow
3 The Popple Partnership
4 Edward Jones
5 Shania
6 Poppy
7 Kangaroo Blue Ltd
8 Hatnut Ltd
9 Royston Ltd
10 Luke Pritchard

ATT EXAMINATIONS
2024
TAX TABLES

INCOME TAX

	2023/24
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000

Scottish Tax Rates and Thresholds (Note 2)

£	%
1 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47

Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

Notes:
(1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
(2) Scottish taxpayers pay Scottish income tax on non-savings income.
(3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
(5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS
2024
TAX TABLES

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note 1) £	**Minimum pension age**
2023/24	60,000	55

Maximum tax-free lump sum £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles		
Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2023/24

Emissions	**Electric range (miles)**	**Car benefit %** (Note 3)	
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (3) 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24	**£**
Van benefit – No CO_2 emissions	Nil
Van benefit – CO_2 emissions > 0g/km	3,960
Fuel benefit	757

Official rate of interest - 2023/24 2.25%

ATT EXAMINATIONS
2024
TAX TABLES

Childcare

Employer supported childcare – basic rate taxpayer (Note 1)	£55 per week

Note: (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	**Plan 2**	**Plan 4**
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold	£1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay		**Weekly rate**
Average weekly gross earnings	£123.00 or more	£109.40

Statutory maternity/adoption pay
First 6 weeks @ 90% of AWE
Next 33 weeks @ the lower of £172.48 and 90% of AWE

Statutory shared parental pay/ paternity pay/parental bereavement pay
For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	**Placement < 11**	**Placement ≥ 11**
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	**Weekly rate**
	£
First child	24.00
Each subsequent child	15.90

Child benefit charge	**Withdrawal rate**
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

ATT EXAMINATIONS
2024
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS		**2023/24**	
Class 1 limits	**Annual**	**Monthly**	**Weekly**
	£	£	£
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

	2023/24
Employment allowance	
Per year, per employer	£5,000
Class 1 primary contribution rates	
Earnings between PT and UEL	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 3 & 4)	13.8%

Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(4) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.45 pw
Small profits threshold (Note 5)	£6,725 pa
Lower profits limit (LPL) (Note 5)	£12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions	£17.45 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£12,570
Annual upper profits limit (UPL)	£50,270
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit	£7,500
Property allowance/Trading allowance	£1,000

ATT EXAMINATIONS
2024
TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.

(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).

(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses
Capital expenditure incurred by a person on research and development.
New zero-emission goods vehicles.
New cars if the car either emits 0g/km of CO_2 or it is electrically propelled.
Electric vehicle charging points expenditure.

Further FYAs available to companies
Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

Limits

Annual registration limit	£85,000
De-registration limit	£83,000

Thresholds	Cash accounting	Annual accounting
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate 9p

ATT EXAMINATIONS
2024
TAX TABLES

CORPORATION TAX

Financial year	**2023**	**2022**
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	**2023**	**2022**
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	**Lifetime rate**	20%

Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands (Note 3)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief	
Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief	
Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions		
Annual exemption		£3,000
Small gifts		£250
Wedding gifts	– Child	£5,000
	– Grandchild or remoter issue or other party to marriage	£2,500
	– Other	£1,000

ATT EXAMINATIONS
2024
TAX TABLES

CAPITAL GAINS TAX

	2023/24
Annual exempt amount	£6,000

CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%

CGT rates for trusts & individuals paying the remittance basis charge

Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%

CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%

Business Asset Disposal relief (BADR)

Relevant gains (lifetime maximum) (Note 6)	£1 million

Investors' relief (IR)

Relevant gains (lifetime maximum)	£10 million

Notes:
(1) For individuals, gains are taxed as if they are the top slice of income.
(2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
(3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
(4) The rate is 18% if the gain is in respect of a residential property
(5) The rate is 28% if the gain is in respect of a residential property
(6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS
2024
TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

TEST "A"
(40 MARKS)

1. Mark's business as a gardener was not going well and he ceased trading on 30 November 2023. His results for relevant periods were as follows:

	Profit / loss
	£
Period ended 30 November 2023	(27,000)
Year ended 28 February 2023	33,000

He also has unused overlap relief of £4,000.

Calculate the maximum amount available for terminal loss relief. (3)

2. Bob had been trading for many years. Bob decided to stop trading, drawing his final accounts to 31 December 2023. Bob wants to know about relief for any payments he might have to make after he has stopped trading. He is unsure what type of payment could be relieved and up to how long after cessation he could claim relief for such payments.

Outline the Income Tax rules for relief of post-cessation payments. (4)

3. **State when an accounting period of a company is deemed to begin for Corporation Tax purposes.** (2)

4. Tikki Ltd submitted its Corporation Tax return for the year ended 30 June 2022 on 10 July 2023. An amended return was submitted on 3 October 2023.

State what penalties will arise, the latest date by which HMRC can open an enquiry, and under what circumstances this date can be extended. (3)

5. Judith's tax due for 2021/22 was £10,000. In January 2023 she made a claim to reduce her 2022/23 payments on account to £4,000 each which she paid on time.

She submitted her 2022/23 tax return on 31 March 2024 showing tax due for the year of £11,500. She enclosed a cheque for £3,500 with the return.

Calculate the interest and penalties due in respect of the above. Assume an interest rate of 6.5% and work to the nearest month and pound. (4)

6. Gold Ltd changed its accounting date to 31 August 2023. In the 8 months to 31 August 2023 the following assets were purchased:

		£
20.3.23	Machinery bought second-hand	600,000
15.5.23	Electric car	28,000
30.7.23	Electric lighting and power system	90,000

The tax written down value on the main pool was £10,000 at 1 January 2023.

Calculate the maximum capital allowances available to Gold Ltd for the period to 31 August 2023. (4)

7. VAT becomes due on a supply of goods or services at the time of supply.

State the tax point for the following:

1) A supply of goods.
2) A supply of services. (4)

8. Bert, who has been farming for many years, has the following adjusted trading profits:

	£
Year ended 31 March 2020	42,000
Year ended 31 March 2021	36,000
Year ended 31 March 2022	41,000
Year ended 31 March 2023	39,000
Year ended 31 March 2024	28,000

Explain why a five year averaging claim is possible and show the profits assessable for all years assuming such a claim is made. State the time limit for making the claim. Assume Bert has made no previous averaging claims. (3)

9. Norbert (aged 45) is employed and receives a salary of £36,000 per annum paid monthly on the 28th of each month in arrears. On 1 August 2023 Norbert also received a bonus of £2,000.

Calculate Norbert's primary Class 1 National Insurance Contributions for 2023/24. (2)

10. **Briefly explain how deficits on non-trading loan relationships, incurred by a company, may be relieved.** (3)

11. Baxter Ltd has three employees during 2023/24.

Josh is 19 and earns a salary of £1,500 a month.

Ravi is 29 and earns a salary of £2,400 a month.

Ceri is 43 and earns a salary of £4,000 a month. Ceri is the only director of Baxter Ltd.

Calculate the total class 1 secondary National Insurance Contributions payable by Baxter Ltd for 2023/24. (3)

12. Gift relief can be claimed by individuals in respect of the disposal of qualifying business assets, where they are given outright or transferred at less than market value.

List the categories of assets which qualify for gift relief. (3)

13. Angle Ltd's accounts showed a profit before tax of £900,000 for the year ended 31 March 2024. Depreciation charges were £12,000 and capital allowances of £20,000 were claimed.

Show the accounting entries needed to record the Deferred Tax provision. Use a Corporation Tax rate of 25%. (2)

TEST "A"
ANSWERS

1. The terminal loss is the loss made in the last 12 months of trade:

	£	£	
2023/24			
6 April 2023 – 30 November 2023			**[½]**
8/9 x (27,000)		(24,000)	**[½]**
Overlap profits		(4,000)	**[½]**
		(28,000)	
2022/23			
1 December 2022 – 5 April 2023			**[½]**
1 December 2022 – 28 February 2023 = 3/12 x 33,000	8,250		**[½]**
1 March 2023 – 5 April 2023 = 1/9 x (27,000)	(3,000)		
	5,250		
Sub-total for 2022/23 = profit therefore take nil		Nil	**[½]**
Terminal loss		(28,000)	

Total 3

2. Post-cessation payments made in the seven years after permanently ceasing to trade **[½]** are given relief by claiming a deduction against net income for the year in which the payment is made. **[½]** [ITA 2007, s.96]

This relief can be extended to treat any unused part as an allowable loss for capital gains tax purposes for the year in which the payment is made, and so offset against capital gains in the same tax year. **[½]** [ITA 2007, s.101]

If the post-cessation expenses exceed the income and gains for that particular tax year, the excess can be carried forward against future post-cessation receipts. **[½]** Unutilised expenses will be wasted and may not receive any relief. **[½]** [ITTOIA 2005, s.254]

Relief is only given for qualifying payments **[½]** as follows [ITA 2007, s.97]:

- Remedying defective work
- Damages
- Legal fees in relation to claims about defective work
- Insuring against liabilities arising out of claims regarding defects, or legal fees in connection with claims about defects
- Debt collection

[Max for examples of qualifying payments 1½]

A claim for relief must be made on or before the first anniversary of the normal filing date for the tax year the relief is to be claimed, **[½]** ie by 31 January 2026 for relief in 2023/24. **[½]**

Max 4

Tutorial Note:

The cap which restricts the total amount of certain reliefs which can be deducted in arriving at taxable income applies to post cessation expenses. The maximum amount of these reliefs which can be deducted each tax year is restricted to £50,000 or 25% of the individual's total adjusted income for the tax year if greater. Credit would also be available for a comment to this effect.

3. An accounting period begins on the earliest **[½]** of:

- acquisition of a source of income; **[½]**
- starting to trade; **[½]**
- immediately after the end of the preceding accounting period. **[½]**

[CTA 2009, s.9]

Total 2

4. Filing date is 12 months after accounting period end, ie. 30 June 2023. **[½]**

Penalty for late return	£100	**[½]**
Latest date to open an enquiry (see note):		
- into unamended items in the return	31 July 2024	**[½]**
- into amended items in the return	31 October 2024	**[½]**

Note: end of quarter following anniversary of filing date/amendment date.

This can be extended if HMRC makes a "discovery" that income which ought to have been assessed has not yet been assessed. **[1]**

Total 3

Tutorial Note:

Amending a return extends the enquiry window to 12 months from the quarter date following the date of amendment. However, if the enquiry notice is given after the end of the normal enquiry window (here 31 July 2024) the enquiry is limited to matters relating to the amendment.

5.

		£	
1)	Late return penalty	100	[½]
2)	Penalty re late balancing payment (> 30 days late) = 3,500 x 5%	175	[½]
3)	Interest charges:		
	On underpaid first POA due 31.1.23 1,000 x 6.5% x 14/12	76	[½] [½]
	On underpaid second POA due 31.7.23 1,000 x 6.5% x 8/12	43	[½] [½]
	On late balancing payment due 31.1.24 1,500 x 6.5% x 2/12	16	[½] [½]
	Total interest charges	135	

[FA 2009 Sch 55 paras 3 – 6 re late filing penalty]
[FA 2009 Sch 56 paras 1 & 3 re late payment penalty]

Total 4

Tutorial Note:

Judith should not have reduced her payments on account for 2022/23 because her income tax due was more than that for 2021/22.

Therefore, her payments on account for 2022/23 should each have been 50% x income tax due for 2021/22 = £5,000 each. Judith's balancing payment for 2022/23 should therefore have only been for £1,500 (£11,500 - £5,000 - £5,000).

Judith will be charged interest on the underpayment of £1,000 for each payment on account and on the balancing payment of £1,500 between the relevant due dates and the date they were paid.

Late payment penalties apply to the total amount of tax outstanding more than 30 days after the due date of 31 January.

6.

8 m/e 31 August 2023	FYA @ 50%	FYA @ 100%	AIA @ 100%	Main Pool	SR Pool	CAs	
	£	£	£	£	£	£	
Tax wdv b/f				10,000			
Additions:							
Machinery (not new)			600,000				**[½]**
New electric car		28,000					**[½]**
Lighting & power	23,333		66,667				**[½]**
	23,333	28,000	666,667	10,000			
FYA @ 50%	(11,667)					11,667	**[½]**
FYA @ 100%		(28,000)				28,000	**[½]**
AIA @ 100%			(666,667)			666,667	**[½]**
WDA @ 18% x 8/12				(1,200)		1,200	**[½]**
Transfer to SR pool	(11,666)				11,666		
Tax wdv c/f	Nil	Nil	Nil	8,800	11,666		
						707,534	

Maximum AIA = 8/12 x 1,000,000
= 666,667 **[½]**

Total 4

Tutorial Note:

The machinery was bought second-hand and is therefore not entitled to the FYA @ 130%.

7. The basic tax point for a supply of goods is: **[½]**

- If goods removed = time of removal **[½]**
- If goods not removed = time when made available **[½]**

The basic tax point for a supply of services is the time when the services are performed, ie completed. **[½]**

The basic tax point is overridden where:

- An invoice is issued or payment is received before the basic tax point **[½]** – the actual tax point is this earlier date **[½]**
- An invoice is issued within 14 days after the basic tax point **[½]** – the invoice date is the actual tax point **[½]**

[VATA 1994, s.6]

Total 4

8. Five year averaging is possible if the lower of the fifth tax year’s profits and the average of the previous four tax years are less than 75% of the higher amount. **[½]**

Average is (42,000 + 36,000 + 41,000 + 39,000)/4 = £39,500 **[½]**

Profits of 2023/24 (y/e 31.3.24) are £28,000, so this is the lower amount

((28,000/39,500) x 100) = 70.9% **[½]**

This is less than 75% so averaging is possible **[½]**

The profit figure for each tax year is therefore £37,200 ((42,000 + 36,000 + 41,000 + 39,000 + 28,000)/5). **[½]**

The averaging claim must be made by 31 January 2026 (ie first anniversary of 31 January following the end of the last tax year). **[½]**

[ITTOIA 2005, s.222A (1,2), 223(3)]

Total 3

9. Monthly salary £3,000
In August 2023 earnings are £5,000 (£3,000 salary + £2,000 bonus)

Class 1 primary NICs

For 11 months on salary only:	£	
(3,000 – 1,048) x 12% x 11	2,577	**[½][½]**
For August 2023:		
(4,189 – 1,048) x 12%	377	**[½]**
(5,000 – 4,189) x 2%	16	**[½]**
	2,970	

Total 2

10.

- Set against any other income and gains of the current accounting period. **[½]**
- Carried back against non-trading loan relationship income **[½]** of the previous 12 months **[½]**
- Carried forward against total profits of the next accounting period (subject to the restriction on loss relief carried forward) **[½]**

All of the above loss relief claims are for the amount specified by the company, they are not all or nothing claims. **[1]**

Total 3

Tutorial Note:

The maximum amount of carried forward losses which may be offset against profits is the lower of:

- the unrelieved carried forward losses; and
- the deductions allowance plus 50% x (unrelieved profits – deductions allowance)

The deductions allowance is £5m per standalone company.
‘Unrelieved profits’ means total profits less any current year loss relief.

11.

Class 1 secondary NICs	£	
Josh – under 21 and earnings below upper secondary threshold	Nil	**[½]**
Ravi: (2,400 – 758) x 13.8% x 12 months	2,719	**[½][½]**
Ceri (Director – annual earnings period): Annual earnings = £4,000 x 12 months = £48,000 (48,000 – 9,100) x 13.8%	5,368	**[½][½]**
	8,087	
Less: Employment allowance	(5,000)	**[½]**
	3,087	

Total 3

Tutorial Note:

Although Baxter Ltd only has one director, the company can claim the employment allowance as there is another employee in respect of which Class 1 NICs are due. If Ceri had been the only employee of Baxter Ltd then the company would not have been able to claim the employment allowance.

12. Examples of business assets for gift relief are:

Any number of shares in an unquoted trading company. **[½]**

Shares in a personal trading company. **[½]** A personal company is one where the donor owns at least 5% of the voting rights. **[½]**

Assets used in a business, including land and buildings, goodwill or plant and machinery used for the purpose of a trade. **[½]** The trade must either be carried on by the individual as a sole trader, or as a member of a partnership, **[½]** or be assets owned by an individual and used by their personal trading company. **[½]**

Agricultural land and buildings used for the purposes of farming. **[½]**

Gifts where there is an immediate charge to inheritance tax. **[½]**

[TCGA 1992, ss.165 & 260]

Max 3

13.

	£	£	
Capital allowances	20,000		
Less: Depreciation charges	(12,000)		
Timing difference	8,000		**[½]**
Deferred tax @ 25%	2,000		**[½]**
Dr Deferred tax expense	2,000		**[½]**
Cr Deferred tax provision		2,000	**[½]**

To record the increase in the deferred tax provision

Total 2

TEST “B”
(40 MARKS)

1. Kenneth is a sole trader with a 31 October year end. His adjusted trading profits are as follows:

	£
Year ended 31 October 2022	22,000
Year ended 31 October 2023	35,000
Year ended 31 October 2024	42,000

Kenneth has unrelieved overlap profits of £6,000.

Calculate Kenneth’s assessable trading profits for 2023/24. (4)

2. Margaret has trading losses in 2023/24 of £220,000. She has been trading for many years and in 2022/23 was assessed on trading profits of £75,000. She has taxable income from a substantial investment portfolio of £140,000 each year.

Show the net income for 2022/23 and 2023/24, and the amount of unrelieved trading loss at 5 April 2024, assuming maximum relief is claimed under s.64 ITA 2007. (4)

3. Helen bought a new office unused from a developer on 1 October 2023 for use in her business. Construction had started on the office in December 2022.

The purchase price paid by Helen for the office was £400,000 (of which £150,000 related to the cost of the land). Helen moved in and started to use the office in her trade on 1 November 2023. Helen prepares her accounts to 31 January each year.

Explain why Helen can claim the structures and buildings allowance (SBA) on the office and calculate the SBA available to Helen for the year ended 31 January 2024. (4)

4. Oak Ltd’s taxable total profits for the year to 31 July 2024 amounted to £3,124,000.

Oak Ltd paid its corporation tax liability for the year ended 31 July 2023 by instalments.

Calculate Oak Ltd’s Corporation Tax liability for the year to 31 July 2024 and state when payment is due. (3)

5. Detour Travel Ltd has been trading since 1 April 2013 making up accounts to 31 March each year. In 2024 it changed its accounting date to 30 June and prepared accounts for the 15 month period to 30 June 2024. The company does not pay its tax by instalments.

Explain the rules for submission of the Corporation Tax return(s) for the 15 month period and the payment of the Corporation Tax liability. (3)

6. Grenil Ltd has the following deductions shown in the accounts for the year to 31 December 2023:

   a) Director's remuneration of £40,000, which includes a provision for a bonus of £10,000 to be paid in 2024.

   b) A charge for contributions to a personal pension fund for the director of £25,000. This sum includes £5,000 to be paid in January 2024.

   c) Dividends to shareholders of £30,000 which were paid before the year end.

   Explain whether each of the above deductions are allowed for Corporation Tax purposes. (3)

7. Keyshia has been self-employed for many years. Her taxable trading profits for 2023/24 are £68,200.

   Calculate the National Insurance Contributions payable by Keyshia for 2023/24 and state when they are payable. (3)

8. Individuals may be liable to Capital Gains Tax on assets used for business purposes.

   Give examples of two assets which are chargeable assets for Capital Gains Tax purposes and examples of two exempt assets. (2)

9. **Explain when a business may or must de-register for VAT and the date from which de-registration will take effect.** (3)

10. When an individual disposes of shares in a company a chargeable gain will normally arise. If certain conditions are met, the gain will be eligible for business asset disposal relief and will be taxed at 10%.

    State the conditions that must be met for the chargeable gain on the disposal of shares to be eligible for business asset disposal relief. (2)

11. **Briefly explain the rules for calculating and paying Employers' Class 1A National Insurance Contributions on benefits and expenses and Class 1B National Insurance Contributions on benefits included in PAYE Settlement Agreements.** (3)

12. **Explain three criteria used to determine whether an individual is employed or self-employed.** (3)

13. Bow Ltd paid corporation tax of £51,000 in respect of the agreed liability for the year ended 31 October 2022 on 1 August 2023. The company had provided £54,000 for corporation tax at 31 October 2022.

    The provision for corporation tax for the year ended 31 October 2023 is estimated at £69,000.

    Set out in debit / credit format the double entries to record the above information in the accounts of Bow Ltd for the year ended 31 October 2023. (3)

TEST “B”
ANSWERS

1.

Step 1	Standard part Profit of y/e 31 October 2023 = £35,000	**[½]**
Step 2	Transition part Profit of 1 November 2023 to 31 March 2024 = 5/12 x £42,000 = £17,500	**[½]**
Step 3	Step 2 less overlap profits = £17,500 - £6,000 = £11,500	**[½]**
Step 4	Step 1 plus step 3 £35,000 + £11,500 = £46,500	**[½]**
Step 5	Transition profits are lower of step 3 and step 4 Transition profits = £11,500 Spread over 5 years = £2,300 per year	**[½]** **[½]**
Step 6	Step 1 = profit, step 1 plus appropriate proportion of transition profits £35,000 + £2,300 = £37,300 Assessable trading profits of 2023/24 = £37,300	**[½][½]**

Total 4

Alternative calculation:

2023/24	£	£
Normal CYB profit – y/e 31.10.23		35,000
Profit to 5.4.24:		
5/12 x 42,000	17,500	
Less: overlap profit b/f	(6,000)	
‘Transition profit’		11,500
Total profit		46,500
Lower of:		
Total profit: 46,500		
Transition profit: 11,500	11,500	
Spread over 5 years, ie £2,300 per year		
Assessable profits:		
Normal CYB profit	35,000	
Spread transition profit	2,300	
Assessable in 2023/24		37,300

2.

2023/24 Current Year	£	
Trade income	Nil	
Other income	140,000	
	140,000	**[½]**
s.64 ITA 2007 loss relief against non-trade income = greater of:		**[½]**
- £50,000; and	(50,000)	**[½]**
- 25% x £140,000 = £35,000		
Net income	90,000	
2022/23 Carry Back		
Trade income	75,000	
Other income	140,000	
	215,000	**[½]**
s.64 ITA 2007 loss relief against same trade income	(75,000)	**[½]**
s.64 ITA 2007 loss relief against non-trade income = greater of:		
- £50,000; and		
- 25% x £215,000 = £53,750	(53,750)	**[1]**
Net income	86,250	
Loss memo:		
Losses	220,000	
Current Year	(50,000)	
Carry Back (75,000 + 53,750)	(128,750)	
Unrelieved	41,250	**[½]**

Total 4

Tutorial Note:

There is a restriction on the total amount of certain reliefs that an individual can claim against net income. Total relief is limited to the greater of £50,000 and 25% of the individual's adjusted total income for the tax year.

Trading losses which are relieved against net income which is not trading income are one of the reliefs subject to this overall restriction.

3. The office is eligible for the SBA because:

- construction started on or after 29 October 2018, **[½]** and
- the first use of the office is non-residential. **[½]**

The qualifying expenditure is the cost of the building excluding land, ie £250,000 (£400,000 - £150,000). **[½]**

Relief is given at 3% per annum **[½]** on qualifying cost **[½]** from the date the office is first brought into business use **[½]** rather than the date the office is bought, ie from 1 November 2023.

Y/e 31 January 2024

SBA = £250,000 x 3% x 3/12 = £1,875 **[1]**

Total 4

4.

Y/e 31 July 2024

	£	
TTP	3,124,000	
CT liability:		
3,124,000 x 25%	781,000	**[½]**

Augmented profits = TTP as no dividends received
Augmented profits > £1,500,000 therefore instalments due

Four instalments, each instalment is 3/12 x £781,000 = £195,250 **[½]**

1st instalment:	14th February 2024	195,250	**[½]**
2nd instalment:	14th May 2024	195,250	**[½]**
3rd instalment:	14th August 2024	195,250	**[½]**
4th instalment:	14th November 2024	195,250	**[½]**
		781,000	

Total 3

5. A corporation tax return is for a period of up to 12 months so if the period of account is in excess of 12 months, two returns must be prepared:

- one for the 12 months to 31 March 2024 and, **[½]**
- the second for the remaining three months to 30 June 2024. **[½]**

The filing date for both returns is 12 months from the end of the period of account – so 30 June 2025. **[1]**

The tax payable is due nine months and one day from the end of the corporation tax accounting period so will be:

- 1 January 2025 for the 12 months to 31 March 2024, and **[½]**
- 1 April 2025 for the three months to 30 June 2024. **[½]**

Total 3

6.

a) Director’s remuneration is allowed as a deduction from profits as being wholly and exclusively for the purposes of the trade. **[½]** An amount accrued at the end of the accounting period is allowed as a deduction provided it is paid within nine months of the end of the accounting period. **[½]**

b) Payments into a personal pension fund for the director are an allowable deduction as being part of their remuneration. **[½]** Only the amount paid in the accounting period is allowed; any provisions for future contributions are not allowed. **[½]**

c) Dividends paid to shareholders are not an allowable deduction for tax purposes. **[½]** Dividends are a distribution of company profits after tax and therefore are not wholly and exclusively for the purposes of the trade. **[½]**

Total 3

7.

Class 2 NICs	£	
52 x £3.45	179	[½]
Class 4 NICs		
(50,270 – 12,570) x 9%	3,393	[½]
(68,200 – 50,270) x 2%	359	[½]
Total Class 4 NIC payable	3,752	

Class 2 NICs are payable as part of the balancing payment for the tax year, on 31 January 2025. **[½]**

Class 4 NICs are payable in the same way as income tax under self-assessment – payments on account are due on 31 January 2024 and 31 July 2024 **[½]** (each payment on account being 50% of the liability for 2022/23) and a balancing payment is due on 31 January 2025. **[½]**

Total 3

8.

Assets subject to capital gains tax include: **[Only two required, ½ each]**

Stocks and shares

Land and property

Chattels where proceeds exceed £6,000

Assets exempt from capital gains tax include: **[Only two required, ½ each]**

Cars

Wasting chattels (unless qualifying for capital allowances)

Chattels where both proceeds and cost are less than or equal to £6,000

Compensation for personal wrong or injury

[Credit given for any other suitable examples]

Total 2

9. A taxable person may de-register voluntarily if their taxable supplies in the next 12 months are expected to be £83,000 or less. **[½]**

If HMRC are satisfied that registration is no longer required the registration will be cancelled. **[½]** Cancellation will be effective from the date of notification or a later date agreed with HMRC. **[½]**

A taxable person must de-register if they cease to make taxable supplies **[½]** (the business may cease trading or may switch from making taxable to exempt supplies). **[½]**

HMRC must be notified within 30 days of ceasing to make taxable supplies. **[½]** De-registration will take effect from the date of ceasing to make taxable supplies. **[½]**

Compulsory de-registration is also required when a business is sold or changes status (for example from a sole trader to a limited company). **[½]**

Max 3

10. Business asset disposal relief conditions:

The shares disposed of must be in a trading company. **[½]**

For the two years prior to the disposal of the shares the individual: **[½]**

- must have held at least 5% of the ordinary share capital in the company, **[½]** which gives them the right to exercise at least 5% of the voting rights, and **[½]**
- the individual must work for the company (either full time or part time) or for another company in the same group**. [½]**

The gains qualifying for relief will be subject to a lifetime limit of £1 million per individual. **[½]**

The individual must claim business asset disposal relief by the first anniversary of 31 January following the tax year in which the disposal is made. **[½]**

Max 2

11. Class 1A NICs are payable by employers on the cash equivalent **[½]** of certain taxable benefits provided to employees and directors. **[½]**

The total amounts of relevant benefits and expenses are multiplied by 13.8% **[½]** and payment made to HMRC by 19 July, or 22 July if paid electronically. **[½]**

Class 1B NICs are payable by employers on the grossed-up value (ie benefit value plus income tax) of benefits included within a PAYE Settlement Agreement (PSA). **[½]**

The grossed-up value of the benefits are multiplied by 13.8% **[½]** and payment made to HMRC by 19 October, or 22 October if paid electronically. **[½]**

Max 3

Tutorial Note:

A PSA allows an employer to settle the employee's tax liability in respect of minor or irregular taxable benefits and expense payments.

12. Mutuality of obligation

An employee has to be provided with work and has to do the work they are delegated. If an individual is self-employed there is no guarantee of work and even if work is offered there is no obligation for them to accept the work offered.

Personal Service

An employee has to do the work themselves. A self-employed person will usually have the freedom to provide a substitute to complete the job in their place.

Right of control

An employee will typically be told what to do, how to do it and when to do it by. A self-employed person will have more control over the jobs they do and the deadline for completion of those jobs.

Provision of own equipment

An employee is normally provided with the equipment they need to do their job whereas a self-employed person may be required to provide the equipment themselves.

Financial risk / opportunity to profit

An employee is paid a regular wage and does not have to correct unsatisfactory work in their own time. A self-employed person can make a profit or a loss on a job and has to correct unsatisfactory work in their own time.

Number of paymasters

A typical employee has one paymaster. If an individual typically provides services for a number of different businesses, he/she is more likely to be self-employed.

[Only three required. [1] each]
[Credit also given for 'Degree of integration' and 'Right to terminate contract'. The Factsheet ES/FS1 in Yellow Part 2 is helpful here.]

Total 3

13. Corporation Tax Journals

	£	£	
Dr Corporation tax creditor	51,000		**[½]**
Cr Bank		51,000	**[½]**

To record the payment of the corporation tax for the year ended 31 October 2022

Dr Corporation tax creditor	3,000		**[½]**
Cr Corporation tax charge (54,000 – 51,000)		3,000	**[½]**

To record the over provision for corporation tax made in the year ended 31 October 2022

Dr Corporation tax charge	69,000		**[½]**
Cr Corporation tax creditor		69,000	**[½]**

To provide for the corporation tax liability for the year ended 31 October 2023

Total 3

TEST "C"
(40 MARKS)

1. Melody had been trading profitably for many years until she incurred a loss during the year ended 31 March 2024. Her recent trading profits/(losses) were as follows:

	£
Year to 31 March 2022	16,000
Year to 31 March 2023	23,000
Year to 31 March 2024	(72,000)
Year to 31 March 2025 (estimated)	15,000

Melody also receives £8,000 rental income each year.

Calculate the net income for 2021/22 to 2024/25 assuming that loss relief is claimed to save tax as early as possible. (3)

2. Deepsea Ltd was incorporated on 5 May 2022 and began trading on 1 July 2022. Its first set of accounts were drawn up for the period to 31 May 2023 and the next set of accounts will be drawn up for the 15 months ended 31 August 2024.

State, with brief explanation, Deepsea Ltd's accounting periods for the purposes of Corporation Tax and state when Deepsea Ltd must lodge the tax returns due. (4)

3. Jamjar Ltd was incorporated on 1 July 2022 when it began trading. It has just prepared its first accounts to 30 June 2023, which shows a profit of £50,000. Jamjar Ltd will file a Corporation Tax Return and the accounts on 31 July 2024. This will be the first time that HM Revenue & Customs are made aware that the company has been trading. No tax has been paid yet.

Identify and briefly explain the maximum and minimum late notification penalty that may be applied to Jamjar Ltd based on the information given above. (3)

4. Selling Ltd has been trading for many years, preparing accounts to 31 March each year.

In June 2023 it incurred capital expenditure of £2,400,000 on the renovation of a property which it had owned and used for a number of years to make the building more suitable for the purposes of its trade. The renovations included £900,000 on the installation of a new cold water system as well as £200,000 on the installation of moveable shelving units.

Selling Ltd incurred no other capital expenditure during the year ended 31 March 2024.

Briefly explain what tax relief is available on the above expenditure assuming that the most beneficial claims are made. (4)

5. Clarence Ltd sold its factory building on 25 November 2023 for £395,000. The company incurred legal fees of £5,250 and selling agent's fees of £10,950 in connection with the sale. Clarence Ltd had purchased the building on 7 April 2002 for £120,000, at which time it incurred legal fees of £3,200. In May 2006, Clarence Ltd had built an extension costing £60,000.

Calculate the chargeable gain arising on this sale. (4)

6. Catchfish Ltd makes supplies of machinery to its customers on credit.

   Briefly explain the time of supply rules for VAT purposes. (3)

7. A client is about to start trading and has asked you which records he should retain for VAT purposes.

   Give four examples of records he needs to retain for VAT purposes and state for how long he needs to retain them. (3)

8. Akin was a plumber for many years, preparing accounts to 30 April, until he retired on 31 July 2023. His taxable profits in his final accounting periods of trade were as follows:

	£
Year ended 30 April 2022	43,000
Year ended 30 April 2023	51,000
Period ended 31 July 2023	9,500

   Akin's unrelieved overlap profits are £4,800.

   Calculate Akin's assessable trading profit for 2023/24. (2)

9. When an individual disposes of shares in a company a chargeable gain will normally arise. If certain conditions are met, the gain will be eligible for investors' relief and will be taxed at 10%.

   State the conditions that must be met for the chargeable gain on the disposal of shares to be eligible for investors' relief. (3)

10. Faiza has been a sole trader for many years, preparing her accounts to 31 October each year.

    Faiza is thinking about buying a car which she will use for both business and private purposes. The car has CO_2 emissions of 90g/km and will be used 80% of the time by Faiza for business purposes. Faiza is unsure of whether to buy the car via a finance lease or via a hire purchase agreement.

    Faiza has not made an election for the cash basis and does not wish to claim flat rate expenses.

    Explain how Faiza will obtain tax relief for the car if she buys the car via:

    - **a finance lease agreement, or** (2)
    - **a hire purchase agreement.** (2)

11. Tahura and Ewa have been in partnership for several years, sharing capital profits and losses in the ratio 1:2.

    On 1 February 2024 the partnership sold a commercial investment property for £420,000. The property had cost £190,000 in March 2005.

    Tahura had taxable income of £30,000 in 2023/24.

    Calculate Tahura's 2023/24 capital gains tax liability. (3)

12. John is self-employed and carries on a trade manufacturing and selling stained glass products. Included in the cost of sales for the year ended 31 March 2024 are:

    1) A stained glass picture which John took from stock as a gift for his friend. The picture cost £110 to make and had a retail price of £200.

    2) A sheet of hand blown glass which had cost £80 and which John had taken for his own use to replace a broken pane in his kitchen window.

    Calculate the adjustment to trading profits required as a result of the above items. (2)

13. Babatunde and Scarlett have traded in partnership for many years.

    During the year ended 31 October 2023 Scarlett took £28,000 out of the business for her own personal use. Scarlett's share of the accounting profit for the year ended 31 October 2023 was £40,000.

    Show the double entries to record Scarlett's drawings and her allocation of the partnership profit for the year ended 31 October 2023. (2)

TEST "C"
ANSWERS

1.

	2021/22	2022/23	2023/24	2024/25	
	£	£	£	£	
Trading income	16,000	23,000	Nil	15,000	
S.83				(15,000)	**[1]**
Rental income	8,000	8,000	8,000	8,000	
Net income	24,000	31,000	8,000	8,000	**[½]**
S.64 claim		(31,000)			**[1]**
Revised net income	24,000	Nil	8,000	8,000	**[½]**

	Trade loss
	£
2023/24	(72,000)
S.64 claim 2022/23	31,000
S.83 2024/25	15,000
C/fwd to 2025/26	(26,000)

Tutorial Note:

There is no point in making a s.64 claim in 2023/24 because the net income is already covered by the personal allowance.

Total 3

2. There is no corporation tax accounting period until Deepsea Ltd obtains a source of income liable to corporation tax. **[½]**

Its first accounting period therefore begins on 1 July 2022 **[½]** and ends on 31 May 2023, the date on which its accounts end. **[½]**

Its next accounting period begins on 1 June 2023 and ends 12 months later on 31 May 2024. **[½]**

Its third accounting period begins on 1 June 2024 and ends on 31 August 2024, the date on which its accounts end. **[½]**

It will lodge a tax return for each corporation tax accounting period.

11 months ended 31 May 2023 – tax return due by 31 May 2024. **[½]**

Year ended 31 May 2024 and 3 months ended 31 August 2024 - both tax returns are due on the same date, 31 August 2025. **[1]**

Total 4

3. Late notification penalty

To avoid a penalty, Jamjar Ltd should have notified HMRC by 30 June 2024 of its chargeability to Corporation Tax. **[½]**

It appears the late notification was due to carelessness. **[½]**

Maximum penalty = 30% **[½]** of the potential lost revenue, which is the Corporation Tax unpaid at 30 June 2024 (12 months after end of accounting period). **[½]**

Minimum penalty = nil **[½]** because the disclosure is unprompted and disclosure made to HMRC less than 12 months after the due date for the payment of the corporation tax (ie less than 12 months after 1 April 2024). **[½]**

Total 3

4. £1,300,000 of the renovation expenditure is eligible for the SBA at 3% per annum **[½]** from the date the expenditure is incurred. **[½]**

The £900,000 expenditure on the new cold water system will qualify as expenditure on integral features **[½]**. As the expenditure was incurred by a company between 1 April 2023 and 31 March 2026 it will be eligible for a first year allowance (FYA) at 50%. **[½]**

However, the annual investment allowance (AIA) is available and provides relief at 100% on expenditure up to the AIA maximum of £1,000,000. **[½]** Therefore the £900,000 cost of the cold water system should be given the 100% AIA. **[½]**

The £200,000 expenditure on the moveable shelving units will qualify for plant and machinery allowances **[½]**. As the expenditure was incurred by a company between 1 April 2023 and 31 March 2026 it will be eligible for a FYA at 100%. **[½]**

However, as £100,000 of the AIA is still available, £100,000 of the cost of the moveable shelving units will be allocated the AIA **[½]** to avoid a balancing charge on disposal and £100,000 will be given a FYA at 100%. **[½]**

Tutorial Note:

The SBA is available for renovation costs of existing buildings that were brought into use before 29 October 2018. Expenditure on integral features which qualifies for plant and machinery capital allowances is not qualifying expenditure for the purposes of the SBA.

Max 4

5.

	£	£	
Sale Proceeds (November 2023)		395,000	
Less: Legal fees		(5,250)	
Selling agent’s fees		(10,950)	**[½]**
		378,800	
Less: Acquisition costs (April 2002)			
Purchase costs	(120,000)		
Legal fees	(3,200)		
		(123,200)	**[1]**
Less: Costs of extension (May 2006)		(60,000)	**[½]**
		195,600	
Less: Indexation allowance			
On acquisition costs:			
April 2002 to December 2017			
(278.1 – 175.7)/175.7 = 0.583 x 123,200		(71,826)	**[1]**
On extension:			
May 2006 to December 2017			
(278.1 – 197.7)/197.7 = 0.407 x 60,000		(24,420)	**[1]**
Chargeable gain		99,354	

Total 4

6. The basic tax point is the time that the goods are made available to the customer. **[1]**

If an invoice is issued or payment is received in advance, the time of supply is the date that the invoice is issued or the payment is received. **[1]**

If an invoice is issued within 14 days of the basic tax point (and no earlier tax point applies) then the tax point is the invoice date. **[1]**

[VATA 1994, s.6]

Total 3

7. The records that need to be kept are as follows:

- Invoices issued (sales)
- Invoices received (purchases)
- Credit notes
- Debit notes
- Copy of VAT account
- Accounting records, including profit and loss account

[any four for ½ each]

They should be kept for six years **[½]** (unless given permission by HMRC to retain for a shorter period). **[½]**

[VAT SI 1995/2518, Reg 31 & VATA 1994, Sch 11 Para 6(3)]

Total 3

8.

<u>Closing year rules:</u>	£	
Profits y/e 30 April 2023	51,000	**[½]**
Profits p/e 31 July 2023	9,500	**[½]**
Less: Overlap profits	(4,800)	**[½]**
Assessable Trading Profit 2023/24	55,700	**[½]**

Total 2

9. <u>Investors' relief conditions:</u>

The shares disposed of must be new ordinary shares **[½]** subscribed for by the individual for cash. **[½]**

The shares must be in a trading company (or holding company of a trading group). **[½]**

At the time the shares were issued the company must have been unlisted. **[½]**

The shares must have been issued by the company on or after 17 March 2016 **[½]** and must have been held continuously for a period of at least 3 years. **[½]**

The individual must not be a 'relevant employee' (ie a director or employee of the company) during the 3 year holding period. **[½]**

Any size shareholding will be eligible for relief. **[½]**

The gains qualifying for relief will be subject to a lifetime limit of £10 million per individual. **[½]**

The individual must claim investors' relief by the first anniversary of 31 January following the tax year in which the disposal is made. **[½]**

Max 3

10. <u>Finance Lease</u>

Tax relief given on finance lease depreciation expense **[½]** and finance lease interest expense **[½]** charged in the profit and loss account (P&L).

As the car has CO_2 emissions greater than 50g/km, allowable amount is 85% of total P&L charge. **[½]**

As Faiza, the sole trader, will use the car only 80% for business purposes, tax relief is given on only 80% of the allowable amount. **[½]**

<u>Hire Purchase</u>

Tax relief given on the cash price of the car via the capital allowances computation. **[½]**

A writing down allowance of 6% per annum is available as the car has CO_2 emissions greater than 50g/km. **[½]** Tax relief is given on 80% of the writing down allowance which is the business use by Fazia, the sole trader. **[½]**

Tax relief will also be given on 80% of the hire purchase interest expense that has been charged in the P&L. **[½]**

Total 4

11. Partnership disposal

	Tahura's Gain	
	£	
Sale proceeds (1/3 x 420,000)	140,000	**[½]**
Less: Cost (1/3 x 190,000)	(63,333)	**[½]**
Chargeable gain	76,667	
Less: AEA	(6,000)	**[½]**
Taxable gain	70,667	

CGT Liability:

7,700 (W) @ 10%	770	**[½]**
62,967 @ 20%	12,593	**[½]**
CGT liability	13,363	

W)

Upper limit to basic rate band	37,700	
Less: Taxable income	(30,000)	
Space left in basic rate band	7,700	**[½]**

Tutorial Note:

The disposal of the property would not have qualified for business asset disposal relief even if it had been used in the partnership's trade (rather than being an investment property) because the partnership is not ceasing to trade and Tahura is not disposing of her partnership share.

Total 3

12. Goods taken from stock are disallowed. The amount added back is the market value:

		£	
1)	Picture (add back retail price)	200	**[1]**
2)	Glass (no market value as not a finished good)	80	**[1]**
		280	

Total 2

13.

	£	£	
Dr Profit and loss account	40,000		**[½]**
Cr Scarlett's current account		40,000	**[½]**

To record the allocation of Scarlett's partnership profit

Dr Scarlett's current account	28,000		**[½]**
Cr Bank		28,000	**[½]**

To record Scarlett's drawings

Total 2

TEST "D"
(40 MARKS)

1. Bronsat Ltd has received a notice to file a Corporation Tax return for the year ended 31 December 2022. It is unable to file the return on time, but expects to be able to submit it by 1 November 2024.

   Bronsat Ltd has previously filed all its Corporation Tax returns on time.

   Explain the late filing penalties that may be chargeable on Bronsat Ltd. (3)

2. James had been trading profitably for many years. In the year ended 31 March 2023, he made a profit of £10,000. However, due to a large bad debt in the year ended 31 March 2024, he made a loss of £60,000. He had income of £8,000 from part-time employment in 2023/24. He also made a capital gain of £30,000 in 2023/24 and had capital losses brought forward of £5,000.

   If a claim is made in 2023/24 to offset the trading loss against the capital gain, compute the maximum amount of trading loss which can be offset against James' gain. Show James' taxable gains for 2023/24 and state the amount of capital losses to carry forward (if any). (3)

3. Farmers can make a claim to average their profits.

   Explain the circumstances in which a claim for averaging may be made in 2023/24 and when a claim would be beneficial. (3)

4. Strawspark Ltd, a trading company, receives interest on bank savings, but this is exceeded by interest payable on a property which is rented to another business.

   Explain how these two types of interest are treated for Corporation Tax purposes. Your answer should include the treatment of any deficit. (4)

5. Plucart Ltd is preparing its capital allowance computation for the year ended 31 December 2023. The balance brought forward on the main pool at 1 January 2023 was £7,500 and on the special rate pool was £1,000.

   On 1 March 2023, the company purchased a new zero emission van for £15,000 and sold a welding machine for £10,000. The 130% FYA was claimed on the original cost of £26,000 of the welding machine when it was bought in June 2021.

   Plucart Ltd's tax adjusted profit before capital allowances for the year ended 31 December 2023 is £940,000.

   Calculate the capital allowances and the trade profit of Plucart Ltd for the year ended 31 December 2023. (4)

6. Gail owns a number of vintage cars and operates a business from a small warehouse hiring the cars out for use in weddings. In January 2024, she sold the warehouse for £50,000 and moved the business to rented premises. She had purchased the warehouse for £35,000 in April 2009.

   She also sold one of her cars for £25,000 in February 2024. She had purchased the car for £7,000 in March 2017.

   Gail is a higher rate taxpayer and made no other disposals during 2023/24.

   Calculate the Capital Gains Tax payable by Gail for 2023/24. (2)

7. You have been asked to prepare the VAT return for a business for the quarter ended 31 March 2024. Included in inputs are the following items:

   a) Stationery
   b) Postage stamps
   c) Milk
   d) Text book
   e) Insurance
   f) Bank charges

   State whether these inputs are zero rated, standard rated or exempt. (3)

8. Mike is a plumber and has traded as a sole trader for many years. Mike also owns 10,000 shares in 'Drains R Us Ltd', a company which specialises in unblocking drains and pipes.

   On 10 September 2023 Mike sold a van which he had used in his trade for £5,000. Capital allowances were claimed on the van. Mike had bought the van second-hand for £3,500 during 2020.

   On 14 December 2023 Mike transferred his 10,000 shares in 'Drains R Us Ltd' to his wife Zara. The shareholding was valued at £17,000 and Zara paid Mike £4,000 for the shares.

   Explain the Capital Gains Tax implications for Mike of the two disposals. (2)

9. Barry Lott is both employed and self-employed. His combined earnings in 2023/24 are expected to exceed the upper limit for National Insurance Contributions.

   State the classes of National Insurance Contributions (NIC) payable by Barry in 2023/24 and briefly explain the rules which limit the amount of NIC he pays. (3)

10. Nicola and John have been in partnership for many years sharing profits equally after allocating salaries of £25,000 to Nicola and £14,000 to John. They are also entitled to interest of 10% on capital contributed. Nicola contributed £50,000 capital and John £30,000.

    The tax adjusted profits for the year ended 31 July 2023 were £60,000.

    Calculate the profits allocated to each partner for the year ended 31 July 2023. (3)

11. Knox Ltd has been in business for many years preparing accounts to 30 June. During 2023 the company changed its accounting date to 31 March for commercial reasons. Its recent results are as follows:

	Y/e 30 June 2022	9 m/e 31 March 2023	Y/e 31 March 2024	Y/e 31 March 2025
	£	£	£	£
Trade profits/(loss)	360,000	550,000	(790,000)	810,000
Non-trading profits (LR)	10,000	10,000	10,000	10,000
Chargeable gains			20,000	

Calculate the taxable total profits of Knox Ltd assuming loss relief is claimed as soon as possible. (3)

Explain the loss relief Knox Ltd should claim in order to save the most tax. (1)

12. David commenced to trade on 1 December 2023, preparing his first accounts to 31 May 2024 and annually thereafter. His results for the opening periods were as follows:

		£
Period ended 31 May 2024	Loss	(18,000)
Year ended 31 May 2025	Profit	108,000

Calculate David's assessable profits for 2023/24 and 2024/25 (before any relief for losses). (2)

13. **Explain the conditions that must be met for an election to be made for the cash basis and state when the election will cease to have effect.** (2)

14. Peter's business buys a van for £30,000 on 1 July 2022. Peter decides to charge depreciation on a 20% reducing balance basis. Accounts are prepared to 30 June each year.

Show the double entry for the depreciation of the van for the year ended 30 June 2024, the second year of ownership. (2)

TEST "D"
ANSWERS

1. Tax return for y/e 31 December 2022 due to be filed by 31 December 2023. **[½]**

Return is expected to be filed by 1 November 2024, which is 22 months after end of accounting period.

If the return is filed late a penalty of £100 is charged immediately **[½]**, even where there are no amounts outstanding. **[½]**

A further £100 is charged where the return is filed more than three months late, giving a total flat rate penalty of £200. **[½]**

If the return is outstanding 18 months after the end of the accounting period (ie on 30 June 2024) there will be an additional penalty of 10% **[½]** of the tax unpaid at the 18 month point. **[½]**

As the return is expected to be filed by 1 November 2024 no further tax geared penalties will apply. **[½]**

Max 3

[FA 1998 Sch 18 paras 17-18]

2.

	2023/24	
	£	
Salary	8,000	
Trade profit	-	
	8,000	
Loss relief (CY)	(8,000)	**[½]**
Net income	Nil	
Capital gain	30,000	
Maximum loss relief = s.71 claim (see working)	(25,000)	**[½]**
Annual exempt amount (restricted)	(5,000)	**[½]**
Taxable gain	Nil	
W) Extension to capital gains		
Capital gain	30,000	
Less capital loss b/f	(5,000)	**[½]**
Maximum loss relief	25,000	**[½]**
Trading loss memo	£	
Loss 2023/24	(60,000)	
Current year	8,000	
	(52,000)	
Extension to capital gain	25,000	
Unrelieved trading loss	(27,000)	
Capital loss c/f	(5,000)	**[½]**

Tutorial Note:

The capital loss brought forward is used to calculate the maximum trading loss that can be converted into a capital loss. Since the net gain in 2023/24 is below the level of the annual exempt amount none of the brought forward capital losses are actually used in 2023/24.

Total 3

3. An individual **[½]** farmer can make a claim for averaging for two successive tax years **[½]** where the profits of one year are less than 75% **[½]** of the other year.

Five-year averaging is available if the 'volatility condition' is satisfied **[½]**, ie the profits of one or more of five consecutive tax years is nil **[½]**, or the fifth tax year's profits are less than 75% of the average of the previous four years' profits (or vice versa). **[½]**

[Max 2 for circumstances]

A claim would be beneficial if:

- high profits in one year would result in a charge to higher rates of tax and Class 4 NICs **[½]**
- the personal allowance of one year would otherwise be wasted **[½]**, or
- it would defer the payment of tax. **[½]**

[Max 1]

[ITTOIA 2005, ss.221-223]

Total 3

4. The amounts to be included in the Corporation Tax computation are calculated on the 'accruals basis' in accordance with generally accepted accounting principles. **[½]**

Both types of interest are in respect of non-trade loan relationships **[½]**. The credit and debit are aggregated. **[½]**

Relief for all or part **[½]** of the resulting deficit can be claimed against any other profits of the accounting period. **[½]**

All or part of the deficit could also be carried back against loan relationship profits **[½]** of the previous 12 months. **[½]**

Any unclaimed deficit may be carried forward and set against total profits of the next or later accounting periods. **[½]** It is a claim and the company must state the amount of the deficit to be offset. **[½]**

Tutorial Note:

The examiner confirmed that equal credit would have been awarded for referring to interest income and interest expense rather than credits and debits in the answer above.

To obtain maximum relief for brought forward losses the company should specify the amount of the deductions allowance in its corporation tax return otherwise a brought forward loss cannot be used to reduce more than 50% of the profits against which it can be set.

Max 4

5.

Y/e 31 December 2023	FYA @ 107.5%	Main pool	Special rate pool	Allowances	
	£	£	£	£	
Tax wdv b/f		7,500	1,000		
Addition before 1.4.23:					
Zero emission van	15,000				
FYA @ 107.5% (W)	(16,125)			16,125	**[1]**
WDA @ 18%		(1,350)		1,350	**[½]**
Small pool WDA			(1,000)	1,000	**[1]**
		6,150	Nil	18,475	

Y/e 31 December 2023	£	
Tax adjusted profit before CAs	940,000	
Balancing charge on welding machine 107.5% (W) x £10,000	10,750	**[1]**
Less: Capital allowances	(18,475)	**[½]**
Trade profit	932,275	

W) FYA = 100 + (30 x 3/12) = 107.5%

Tutorial Note:

The FYA @ 130% is not available for cars but is available for vans. As the FYA @ 130% is available this is claimed rather than the FYA @ 100% which is available on the purchase by any business of a zero emission goods vehicle.

As the accounting period straddles 1 April 2023 the FYA @ 130% must be reduced. The rate is calculated as 100 + (30 x N/AP) where:

N is the length of the accounting period before 1 April 2023, and
AP is the length of the accounting period

[½ if WDA of 6% given on special rate pool instead of small pool WDA]

Total 4

6.

Disposal of warehouse	£	
Sales proceeds	50,000	
Cost	(35,000)	
Chargeable gain	15,000	**[½]**
Annual exempt amount	(6,000)	**[½]**
Taxable gain	9,000	
CGT @ 20%	1,800	**[½]**
Car = exempt asset		**[½]**

Tutorial Note:

The disposal does not qualify for business asset disposal relief since Gail has not ceased to trade and she is not disposing of her sole trader business.

Total 2

7.

Stationery	Standard rated	**[½]**
Postage stamps	Exempt	**[½]**
Milk	Zero rated	**[½]**
Text book	Zero rated	**[½]**
Insurance	Exempt	**[½]**
Bank charges	Exempt	**[½]**

Total 3

[VATA 1994 Sch 8 & Sch 9]

8. The disposal of the van is exempt because it is a chattel which cost ≤ £6,000 and the gross sale proceeds were also ≤ £6,000. **[1]**

The shares transferred to Mike's wife Zara would be treated as a no gain no loss transfer and so no liability to Capital Gains Tax would arise for Mike. **[1]**

> **Tutorial Note:**
>
> A car is an exempt asset for CGT purposes but a van is not a car. The van is not exempt as a wasting chattel because capital allowances have been claimed but it can still be exempt under the £6,000 chattel rule.

Total 2

9. Barry pays Class 1 (primary), **[½]** Class 2 **[½]** and Class 4. **[½]**

There is an annual maximum of NIC payable by Barry **[½]** as he has both an employment and self-employment. **[½]**

This is not a set amount. HMRC will calculate the annual maximum **[½]** which determines the Class 2 and Class 4 payable. **[½]**

> **Tutorial Note:**
>
> The examiner confirmed that expressing the NIC annual maxima in terms of Test 1 and Test 2 was equally acceptable for the last ½ mark.

Max 3

10.

	Total	Nicola	John	
	£	£	£	
Year ended 31 July 2023	60,000			
Salaries	(39,000)	25,000	14,000	**[1]**
Interest (10% x £50,000/ £30,000)	(8,000)	5,000	3,000	**[1]**
	13,000			
Balance 50:50	(13,000)	6,500	6,500	**[½]**
	Nil			
Profits allocated for y/e 31 July 2023		36,500	23,500	**[½]**

Total 3

11.

	Y/e 30 June 2022	9m/e 31 March 2023	Y/e 31 March 2024	Y/e 31 March 2025	
	£	£	£	£	
Trade profit	360,000	550,000	Nil	810,000	
Non-trading profits (LR)	10,000	10,000	10,000	10,000	
Chargeable gains			20,000		
Total profits	370,000	560,000	30,000	820,000	**[½]**
Loss relief:					
Current year			(30,000)		**[½]**
Carry back 12 months:					
- 9 m/e 31 March 2023		(560,000)			**[½]**
- Y/e 30 June 2022					
Max = 3/12 x 370,000	(92,500)				**[1]**
Carry forward				(107,500)	**[½]**
TTP	277,500	Nil	Nil	712,500	

Loss Memorandum

	£
Trading loss y/e 31 March 2024	(790,000)
Less: Current year claim	30,000
	(760,000)
Less: Carry back to 9 m/e 31 March 2023	560,000
	(200,000)
Less: Carry back to y/e 30 June 2022 (Max = 3/12 x £370,000)	92,500
	(107,500)
Less: Carry forward to y/e 31 March 2025	107,500
	Nil

All of the trade loss should instead be carried forward and set against the total profits of the year ended 31 March 2025 to save the most tax. **[½]**

This would save £570,000 at the main rate of 25%, £200,000 in the marginal band at 26.5% and £20,000 at the small profits rate of 19% instead of just saving tax at 19%. **[½]**

Tutorial Note:

The rate of corporation tax that applied in the year ended 30 June 2022 and the nine months ended 31 March 2023 was 19%. The profits of the year ended 31 March 2024 will also be taxed at 19% as they are below £50,000 (assuming the company has not received any dividends).

Total 4

12.

2023/24

	£	
1 December 2023 – 5 April 2024		
4/6 x (18,000)	(12,000)	**[½]**
Therefore, taxable trading profits	Nil	**[½]**

2024/25

6 April 2024 – 5 April 2025		
2/6 x (18,000)	(6,000)	**[½]**
10/12 x 108,000	90,000	**[½]**
	84,000	

Total 2

13. The election can be made by a sole trader or partnership where all the partners are individuals **[½]**. It can only be made if total business receipts for the tax year the election is made do not exceed £150,000. **[½]**

The election ceases to apply for the tax year following that in which total business receipts exceed £300,000, **[½]** unless receipts for the current tax year will not exceed £150,000. **[½]**

An election also ceases to have effect if there is a change in the circumstances of the trade which makes it more appropriate for profits to be calculated in accordance with generally accepted accounting practice and the trader elects for profits to be calculated on this basis. **[1]**

Max 2

Tutorial Note:

Where the basis period for the tax year is less than 12 months the limits are proportionally reduced. If the basis period for 2023/24 is longer than 12 months, the limits are proportionally increased.

14.

Depreciation calculation

Year 1: 30,000 x 20% = 6,000 NBV = 30,000 – 6,000 = 24,000
Year 2: 24,000 x 20% = 4,800 **[1]**

	£	£	
Dr Depreciation expense	4,800		**[½]**
Cr Provision for depreciation - Van		4,800	**[½]**

Total 2

PAPER 2
LONG QUESTIONS

1. Derek Nightlark owns a racehorse and two ponies and runs a racing stable in the grounds surrounding his house. He provides stabling for seven horses, charging livery fees for accommodation and training of the horses. His wife works for the business and gives riding lessons on the ponies. Derek has been trading for many years and has asked you to prepare the computation of adjusted trading profits for the year ended 31 March 2024.

Derek has prepared the following income and expenditure account:

	£	£
Income		
Livery (stabling fees)	300,000	
Prize money (races)	50,000	
Gambling wins	7,500	
Riding lessons	75,000	
Gift	10,000	442,500
Expenses		
Feedstuffs	100,000	
Vet's bills	25,000	
Rent	9,000	
Heat & light	3,500	
Rates	4,500	
Total Stabling costs	142,000	
Insurance	5,500	
Depreciation	3,250	
Legal fees	6,500	
Staff costs	35,000	
Motor vehicle leasing	7,500	
General office costs	5,000	
Motor expenses	4,000	
Bets placed	6,500	(215,250)
Excess income		227,250

You have been provided with the following information in connection with the accounts:

1) The prize money was won by Derek's race horse which came first in several races.

2) Derek places a bet on each race a horse from his stable is entered in. The costs of these bets totalled £6,500 and the resulting winnings totalled £7,500.

3) One of the horses trained by Derek won a major race. In gratitude, the horse's owner gave Derek a cheque for £10,000. There was no contractual obligation on the owner to make this gift.

4) Legal fees were in respect of £4,000 for a new 10 year lease of extra land surrounding the property. A further sum of £2,500 was paid in connection with legal costs of recovering a bad debt.

5) Staff costs includes £7,500 paid to his wife who gives riding lessons, and £2,500 to his daughter who does not work in the business.

6) The vehicle leasing payments were in respect of a car for Derek's private and business use. The lease was entered into on 1 May 2022 and it is agreed that 50% is private motoring. The car has CO_2 emissions of 98g/km. Derek does not wish to claim flat rate deductions in respect of the car.

7) General office costs include £2,275 for the cost on 1 July 2023 of laying a stone footpath from the office to the stables across ground which was previously unmade.

8) The motor expenses relate to the car leased by Derek.

9) At 1 April 2023 the capital allowances pool was £5,000. In June 2023 new computer equipment costing £5,000 was purchased and in August 2023 a new horse box costing £20,000 was purchased. 10% of the stabling costs and horsebox capital allowances relates to private use for Derek's race horse.

Derek is considering expanding the business, but will require additional capital. His friend, Graham, has offered to become his business partner and contribute £500,000 in return for a one half share of the business. They are discussing terms and have asked you to explain what should be covered in a partnership agreement.

Requirement:

1) Calculate the adjusted trading profits for the year ended 31 March 2024. (12)

2) State six matters that should be covered by a partnership agreement. (3)

Total (15)

2. Thomas Harrow commenced trading on 1 January 2016 and has been making accounts up to 31 December each year. In 2023 he decided to change his accounting date to 31 March and has provided you with the following information in respect of the 15 month period to 31 March 2024.

	£	£
Turnover		205,000
Expenses:		
Payroll	65,000	
Travel	5,000	
Motor expenses	4,000	
Entertaining	3,500	
Bad debts	4,000	
Depreciation	3,000	
Repairs and renewals	7,000	
Property overheads	24,000	
Legal & professional fees	4,500	
		(120,000)
Net profit		85,000

You have been provided with the following information in connection with the accounts.

a) Motor expenses is in respect of the full running costs of a new car with CO_2 emissions of 85g/km purchased for £16,000 on 1 September 2023. A total of 16,000 miles were driven by Thomas in this car during the accounting period – 50% of this mileage was wholly and exclusively for business purposes. Thomas would like to claim flat rate expenses where possible.

b) Entertaining includes a staff Christmas meal at a cost of £750 for Thomas, his wife and his four members of staff who each brought their partners.

c) The charge for bad debts is in respect of monies stolen by a former employee and written off as irrecoverable following their conviction and imprisonment for theft.

d) Repairs and renewals include the purchase of three additional computers and a server to upgrade the existing system which cost £5,000 in December 2023.

e) Legal and professional fees include accountancy fees of £1,000 in respect of dealing with a PAYE enquiry during 2023 which resulted in a payment of £4,000 to HM Revenue & Customs included under payroll costs. This payment was in respect of underpaid PAYE of £3,275 and penalties of £725.

f) The capital allowances pool balance at 1 January 2023 was £1,500.

g) Thomas has unrelieved overlap profits of £8,000.

Requirement:

1) **Calculate the trading income assessable for 2023/24. Your answer should clearly show your treatment of items (a) to (e).** (13)

2) **Calculate Thomas' total liability for 2023/24 for Income Tax and National Insurance purposes.** (3)

Total (16)

3. The Popple Partnership has been trading for 12 years as wholesale butchers processing meat for the restaurant trade. The partners, Alan, Brenda and Simon Popple, draw up their accounts to 31 August each year. The results for the year ended 31 August 2023 are as follows:

	£
Turnover	2,450,000
Direct costs of sale	(1,700,000)
	750,000
Administration expenses	(208,266)
Overhead expenses	(120,450)
Net profit	421,284

The partnership agreement states that profits should be shared between the partners as follows:

	Alan	Brenda	Simon
Salaries	£40,000	£30,000	£30,000
Profit sharing ratio	50%	12.5%	37.5%

The partners took meat with a total retail value of £300 from the business during the year for their own use. No adjustment has been made in the accounts in respect of this.

Included in overhead expenses are the following items:

i) Entertaining of £19,158. Of this £10,000 relates to a corporate golf day attended by clients and a few staff. The staff element relates to approximately 20% of the total cost. The remaining £9,158 is purely client entertaining.

ii) Depreciation of plant and machinery of £10,550.

Included in administration expenses are the following items:

i) The finance leasing charges of a motor car used by Alan as follows:

	£
Finance lease interest expense	1,500
Finance lease depreciation	3,500

The car has CO_2 emissions of 95g/km and it is used 60% for business. The lease was entered into by the partnership on 1 January 2022.

ii) Petrol of £850 relating to Alan's car.

iii) £5,000 being a fine imposed by the local authority environmental health department for a breach of health regulations.

iv) Computer software of £1,800 relating to a programme purchased with a new computer system. Estimated life of the software is three years.

Capital expenditure in the period has been as follows:

	£
Car for employee, used 80% for business, CO_2 emissions 88g/km (2.3.23)	10,665
New computer system including software above (19.5.23)	9,600
Mincing machine (17.8.23)	8,000

The tax written down value of the main pool at 1 September 2022 was £95,280.

The partnership purchased a brand new factory on 31 December 2021 for £400,000 including the cost of the land which was agreed at £50,000.

You note from your file that the partners have the following overlap profits brought forward:

	£
Alan	100,000
Brenda	15,000
Simon	42,500

Alan's tax adjusted trading profit for the year ended 31 August 2024 is expected to be £220,000.

The Popple Partnership does not wish to claim any flat rate expenses in respect of allowable expenses.

Requirement:

1) **Calculate the adjusted trading profit for the partnership for the year ended 31 August 2023.** (11)

2) **Allocate the adjusted trading profit for the year ended 31 August 2023 between the partners.** (1)

3) **Calculate Alan's taxable trading profit for 2023/24.** (4)

Total (16)

4. Edward Jones has been trading for many years, making up accounts to 31 December each year until 30 September 2023, when he ceased trading.

His recent results, adjusted for tax purposes, were as follows:

	£
31 December 2019	28,000
31 December 2020	16,000
31 December 2021	19,000
31 December 2022	3,000
30 September 2023	(30,000)

Edward has unrelieved overlap profits of £4,500 from the commencement of trade.

Since 2016, Edward has been receiving a pension of £10,000 per annum from his former employer.

Edward's trading problems arose after a dispute with a major customer in October 2022. The customer owes £20,000 and Edward has taken court action to recover this amount. A full bad debt provision was made in the accounts for the year ended 31 December 2022. A court hearing is due later this year. It is unlikely that any sum will be received until sometime in 2025, but Edward is anticipating recovering the amount in full.

During the course of preparing Edward's accounts, you discover that he has been receiving rents from a rental property since 6 April 2021. The taxable rental income is around £3,000 per annum and has not been disclosed on Edward's tax return. You have mentioned this to Edward but he appears to take the view that nothing should be done about it.

Requirement:

1) **Calculate the trading income assessments for the years 2019/20 to 2022/23 (before giving relief for the trading loss) and calculate the trading loss for 2023/24.** (3)

2) **Calculate the amount of loss available for terminal loss relief and show how the terminal loss would be relieved.** (4)

3) **Explain the treatment for taxation purposes of any receipt following the court's action to recover the debt.** (2)

4) **Explain the course of action you should take regarding the discovery of the rental income.** (3)

Total (12)

5. Shania owns a care home which is used by a company, Shania Care Ltd, in which she owns 50% of the shares.

   She has received an offer for part of the site from a developer who wants to convert it into flats. Shania will continue to own the remainder of the property, which will continue to be used as a care home by Shania Care Ltd.

   She has also decided to retire from the business and sell half of her Shania Care Ltd shares to an investor. She has approached you to ask for advice on her position with respect to Capital Gains Tax.

   Requirement:

   Draft a letter to advise Shania on the Capital Gains Tax position with regard to the sale of the property and the shares, explaining how any liability will be calculated, any relief available and the conditions attaching to the relief. (10)

6. Poppy has run a cake making business from her home for several years. Her turnover is between £20,000 and £30,000 per annum and she has decided to make a cash basis election for 2023/24.

Poppy currently has a car which she uses to deliver her cakes to customers. She uses the car 70% of the time for business purposes, being 4,300 business miles in the year ended 31 March 2024. The car was acquired in June 2022 and has CO_2 emissions of 125g/km. The tax written down value of the car at 1 April 2023 was £5,400. She would like to claim flat rate expenses in respect of the business use of the car for 2023/24 if possible.

Poppy is not sure whether she would like to claim a flat rate expense in respect of the business use element of her household running expenses.

As her business has grown, Poppy has decided that she needs to use a different vehicle for deliveries. She is currently looking at two alternative vehicles:

- A '4 x 4' car costing £20,000 with CO_2 emissions of 85g/km. The car would have 30% private use and total running costs per annum would amount to £1,900.
- A van costing £15,000. The van would be used 100% for business purposes. Total running costs per annum would amount to £1,500.

Her business mileage is likely to be 5,000 miles per annum.

She has asked you to explain the options for obtaining relief in respect of these vehicles. The vehicle will be acquired on 1 April 2025.

Requirement:

Draft a letter to Poppy:

1) **Explaining whether or not she can claim a flat rate expense in respect of the car for 2023/24 and how relief will be obtained if the flat rate expense cannot be claimed;** (2)

2) **Describing the flat rate expenses available for the business use of her home;** (3)

3) **Setting out the two alternatives for relief under the cash basis for the business use of the new vehicle if:**

   a) **the car is acquired; or**
   b) **the van is acquired.**

   Your answer should include calculations for the year ended 31 March 2026, assuming 2023/24 rates and allowances continue to apply. (8)

Total (13)

7. Kangaroo Blue Ltd is a new company first registered on 1 January 2023. The company had no source of income until it commenced trading on 1 April 2023 and made its first accounts up to 31 December 2023. The draft profit and loss account for the nine months to 31 December 2023 was as follows:

Income	£	£
Sales revenue		620,000
Expenses		
Depreciation	10,250	
Staff costs	235,000	
Legal fees	2,500	
Travel and entertaining	6,250	
General office costs	9,000	
Rent, rates and insurance	22,350	
Sundry	3,650	
		(289,000)
Net profit		331,000

You have been provided with the following information in connection with the accounts:

1) At 31 December 2023, there were sales of £25,000 which had been completed but were not invoiced until January 2024.

2) Legal fees include £1,250 in respect of the cost of company formation.

3) Travel and entertaining includes £256 for client entertaining and £1,000 in respect of one of the director's golf club membership fees. He meets business clients at the club and secured three business contracts as a result of his meetings.

4) General office costs include £1,200 in respect of health insurance for the directors.

5) The company incurred rental expenses in connection with the lease of its offices which commenced on 1 January 2023. As the offices were not occupied until 1 April 2023, rent of £5,000 for the period 1 January 2023 to 31 March 2023 has not been included under the heading rent, rates and insurance but treated as the cost of the lease in the balance sheet.

6) In April 2023, the company purchased office furniture and equipment for £75,000.

No provision for Class 1A NICs has been included in the accounts. The company has agreed that adjustments in respect of sales, Class 1A NICs and pre-trading rental costs should be made to the draft figures.

Requirement:

1) Calculate the Corporation Tax payable for the period to 31 December 2023 and state when it is due for payment. (8)

2) Explain the rules regarding notifying HM Revenue & Customs of the commencement of trade. (1)

3) Explain the rules regarding the submission of the Corporation Tax return. (1)

Total (10)

8. Hatnut Ltd has been trading for many years making accounts to 31 August each year. In 2023 it changed its accounting date to 31 December. Its accounts for the 16 months ended 31 December 2023 show the following:

	£
Tax adjusted trading profit before capital allowances	800,000
Rental income	14,000
This was received in respect of a new tenant for the period 1 November 2022 to 31 December 2023	
Bank interest receivable	200
Chargeable gain on sale of property sold 1 November 2023	16,000
Dividends received 16 February 2023	20,000
Cash donation to charity paid 1 April 2023	(12,000)

The tax written down value at 1 September 2022 of the main pool was £480,300. Hatnut Ltd bought some second-hand office equipment on 1 January 2023 for £32,000 and installed new air conditioning units costing £68,000 in the office building on 1 October 2023. On 15 December 2023 the company sold a machine which had cost £18,000 for £12,000. The company had claimed the 130% FYA on this machine.

Although Hatnut Ltd has made a trade profit for the period to 31 December 2023, a major customer has become insolvent and Hatnut Ltd is currently sustaining losses. The directors anticipate a trading loss of approximately £500,000 in the year ended 31 December 2024. Hatnut Ltd is expected to carry on trading and become profitable again in the year ended 31 December 2025.

Requirement:

1) **Calculate the Corporation Tax payable for the 16 months ended 31 December 2023.** (11)

2) **State the due dates for submission of the Corporation Tax return(s) and payment of Corporation Tax for the above period.** (2)

3) **Explain the requirements for a limited company to keep records for Corporation Tax purposes, the period for which records must be retained and the penalty for failure to keep those records.** (3)

4) **Explain all the possible options available to Hatnut Ltd for relieving the anticipated trading loss of the year ended 31 December 2024.** (3)

Total (19)

9. Royston Ltd has been trading for many years making up accounts to 31 March in each year.

For the year ended 31 March 2024 it has made the following purchases:

1) On 31 August 2023 a contract was signed for the purchase of a new heating system costing £1,250,000. The installation took place over several months and payments under the contract were made as each part of the contract was certified completed as follows:

   - 40% on 30 September 2023,
   - 40% on 31 December 2023, and
   - 20% on 31 May 2024.

2) In September 2023 a new car with CO_2 emissions of 65g/km was acquired under a three year finance lease for payments of £1,000 per month. The list price of the car is £27,000.

3) New vans were purchased on 25 October 2023 for £140,000.

4) In November 2023 an electric car was purchased for £16,000. The car was six months old having previously belonged to the managing director.

5) On 1 January 2024 a new office building was bought from a builder for £360,000. The cost included £80,000 for the land and £40,000 for integral features. Royston Ltd started using the building for its trade straight away.

The tax written down value carried forward as at 31 March 2023 on the main pool was £279,000.

Requirement:

Explain the capital allowance implications of the above purchases and show clearly your calculations of the amounts which may be claimed for the year ended 31 March 2024. (15)

10. Luke Pritchard currently works for Kook Kitchens Ltd as a kitchen fitter and carpenter, but after several years of working for someone else he has decided to ‘go it alone’ and start his own business.

Luke will start trading on 1 July 2024 and will prepare his first business accounts for the period ended 31 March 2025 and annually thereafter. He would like some tax advice on this venture.

Luke is undecided whether to set the business up as a sole trader business or as a company, and he would like to understand the key tax considerations relating to this.

His business plan estimates a monthly turnover in the region of £16,000, with annual profits around £90,000.

Requirement:

Write a letter to Luke to:

1) **Outline the key differences in the taxation of his business venture as a company and as a sole trader, including the basis of assessment for both.** (9)

2) **Explain when the business will be required to register for VAT and the effects of being VAT registered.** (5)

Total (14)

Assume the VAT registration limit at 1 April 2023 continues to apply in future years.

ANSWERS TO LONG QUESTIONS

1. DEREK NIGHTLARK

1)

		£	
Profit per accounts (= Excess income)		227,250	[½]
Less:			
Prize money (exempt income)	(50,000)		[½]
Gambling wins (exempt income)	(7,500)		[½]
Gift from client (non-contractual)	(10,000)		[½]
		(67,500)	
Add:			
Depreciation	3,250		[½]
Bets placed (relates to exempt income)	6,500		[½]
Legal fees – new lease	4,000		[½]
Daughter's wages	2,500		[½]
Vehicle lease (W2)	4,312		[½]
New footpath	2,275		[½]
Motor expenses (4,000 × 50%)	2,000		[½]
Private use stabling (142,000 × 10%)	14,200		[½]
		39,037	
		198,787	
Capital allowances (W1)		(23,900)	[½]
SBA (£2,275 x 3% x 9/12)		(51)	[½]
Adjusted trading profit for y/e 31 March 2023		174,836	[½]

Workings

W1) Capital allowances

Y/e 31 March 2024	AIA @ 100%	General Pool		CAs	
	£	£		£	
Tax wdv b/f		5,000			[½]
Additions:					
Computer equipment	5,000				[½]
AIA @ 100%	(5,000)			5,000	[½]
Horsebox	20,000				[½]
AIA @ 100%	(20,000)		x 90% business use	18,000	[½]
WDA @ 18%		(900)		900	[½]
Tax wdv c/f		4,100		23,900	

W2) Vehicle leasing

	£	
Allowable: 7,500 x 85% x 50% business use	= 3,188	[½][½]
Add back = 7,500 – 3,188	= 4,312	[½]

Tutorial Note:

Derek is not eligible to use the cash basis of accounting due to the level of his business receipts.

Total 12

2) **[Any six from the following]**

The partnership agreement should cover the following matters:

- The firm's name
- The place of business
- The nature of the firm's business
- The date on which the partnership is to commence
- The duration of the partnership
- The proportions in which capital is to be provided
- Whether interest is to be paid on capital before profits are divided
- The way in which profits are to be shared
- Provisions as to partners' drawings
- Meetings of partners and management of business
- Restrictions on the activities of partners
- The admission of new partners
- The retirement or expulsion of partners
- The effect of death or retirement of a partner
- Keeping of books of account, preparation of financial statements and provisions dealing with taxation
- An indemnity for each partner against liabilities incurred in the course of business
- Dispute resolution

[Essential Law for Tax Practitioners Text (6th edition), chapter 12, section 12.6]

[½ per relevant point]

Max 3

Total for question 15

2. THOMAS HARROW

1)

Trade profit computation

	£	£	
Net profit		85,000	
Add:			
Depreciation	3,000		**[½]**
Motor expenses per P&L (flat rate expense claimed)	4,000		**[½]**
Entertaining (3,500 – 600 (allow £750 x 8/10) [Tutorial note 1]	2,900		**[½][½]**
Bad debts (staff theft)	-		**[½]**
Repairs and renewals – computers & server upgrade	5,000		**[½]**
Legal and professional fees – PAYE enquiry	1,000		**[½]**
Penalties	725		**[½]**
		16,625	
		101,625	
Less:			
Flat rate expense for motor expenses (16,000 x 50% = 8,000 business miles @ 45p)		(3,600)	**[½][½]**
Capital allowances (W1)		(5,338)	**[½]**
Tax adjusted profit for 15 months to 31 March 2024		92,687	**[½]**

Tutorial Note:

1) In practice the definition of 'employees' re entertaining is extended to include their partners therefore only the expenses of the Christmas meal relating to Thomas and his wife are disallowed.

   Four members of staff plus their partners plus Thomas and his wife makes 10 people, allow 8/10 x £750 = £600

2) Thomas is not eligible to use the cash basis of accounting due to the level of his business receipts. The turnover threshold for 2023/24 is £187,500 (£150,000 x 15/12) because Thomas has a basis period of 15 months.

Step 1 — Standard part
Profit of y/e 31 December 2023 = 12/15 x £92,687 = £74,150 **[½]**

Step 2 — Transition part
Profit of 1 January 2024 to 31 March 2024
= 3/15 x £92,687 = £18,537 **[½]**

Step 3 — Step 2 less overlap profits
= £18,537 - £8,000 = £10,537 **[½]**

Step 4 — Step 1 plus step 3
£74,150 + £10,537 = £84,687 **[½]**

Step 5 — Transition profits are lower of step 3 and step 4
Transition profits = £10,537 **[½]**
Spread over 5 years = £2,107 per year **[½]**

Step 6 — Step 1 = profit, step 1 plus appropriate proportion of transition profits
£74,150 + £2,107 = £76,257 **[½][½]**

Assessable trading profits of 2023/24 = £76,257

Alternative calculation:

2023/24	£	£
Profit of y/e 31.12.23 (12/15 x 92,687)		74,150
Profit to 5.4.24:		
3/15 x 92,687	18,537	
Less: overlap profit b/f	(8,000)	
'Transition profit'		10,537
Total profit		84,687
Lower of:		
Total profit: 84,687		
Transition profit: 10,537	10,537	
Spread over 5 years, ie £2,107 per year		
Assessable profits:		
Profit of y/e 31.12.23	74,150	
Spread transition profit	2,107	
Assessable in 2023/24		76,257

W1) Capital allowances

15 m/e 31 March 2024	AIA@ 100% £	General Pool £	CAs £	
Tax wdv b/f		1,500		[½]
Additions:				
Computers & server upgrade	5,000			[½]
AIA @ 100%	(5,000)		5,000	[½]
WDA @ 18% x 15/12		(338)	338	[½][½]
	-	1,162	5,338	
No CAS on car				[½]

Tutorial Note:

No capital allowances are available on the car which was acquired on 1 September 2023 because the flat rate expense has been claimed for motor expenses in respect of this car.

Total 13

3)

Income tax computation 2023/24

	Non-Savings £	
Trading income = Net income	76,257	
Less: Personal allowance	(12,570)	[½]
Taxable income	63,687	
Tax:		
37,700 x 20%	7,540	[½]
25,987 x 40%	10,395	[½]
63,687		
IT liability	17,935	

Class 2 NICs:		
£3.45 x 52	179	**[½]**
Class 4 NICs:		
(50,270 – 12,570) x 9%	3,393	**[½]**
(76,257 – 50,270) x 2%	520	**[½]**
	3,913	

Total 3

Total for question 16

3. THE POPPLE PARTNERSHIP

1) Adjusted Trading Profit for year ended 31 August 2023

	£	
Net profit per accounts	421,284	
Add:		
Goods for own use	300	[½]
Entertaining (W1)	19,158	[½]
Depreciation	10,550	[½]
Leasing costs (W2)	2,450	[½]
Petrol – Alan (£850 x 40% private use)	340	[½]
Fine	5,000	[½]
Computer software (capital, useful life > 2 years)	1,800	[½]
Less:		
Capital allowances on P&M (W3)	(35,390)	[½]
SBA (W4)	(10,500)	[½]
Tax adjusted profit for y/e 31 August 2023	414,992	[½]

Tutorial Note:

The selling price of the meat taken out of the business by the partners is added back. These are drawings but the partnership has not yet accounted for these drawings in their accounts.

Workings

W1) As the greater % of golf day relates to client entertaining, total cost disallowed.

W2)

	£	
Finance lease interest expense	1,500	
Finance lease depreciation	3,500	
Total P&L Charge	5,000	
Allowable £5,000 x 85% (re CO_2) x 60% (business use)	2,550	[½][½]
Therefore, add back (£5,000 – £2,550)	2,450	[½]

W3) Capital allowances

Y/e 31 August 2023	AIA @ 100% £	Main pool £	Special rate pool £	CAs £	
Tax wdv b/f		95,280			[½]
Additions:					
Car for employee – CO_2 > 50g/km (ignore private use)			10,665		[½]
Computer & software	9,600				[½]
Mincing machine	8,000				[½]
	17,600	95,280	10,665		
AIA @ 100%	(17,600)			17,600	[½]
WDA @ 18%		(17,150)		17,150	[½]
WDA @ 6%			(640)	640	[½]
Tax wdv c/f	Nil	78,130	10,025	35,390	

W4) SBA

Qualifying expenditure = £400,000 - £50,000 = £350,000 **[½]**

SBA = £350,000 x 3% = 10,500 **[½]**

Total 11

2) Allocation of profit for year ended 31 August 2023

	Total	Alan	Brenda	Simon	
Y/e 31 August 2023	£	£	£	£	
Tax adjusted profit	414,992				
Less: salaries	(100,000)	40,000	30,000	30,000	**[½]**
	314,992				
PSR: 50%: 12.5%: 37.5%	(314,992)	157,496	39,374	118,122	**[½]**
	Nil	197,496	69,374	148,122	

Total 1

3) Alan's taxable trading profit for 2023/24

Step 1 Standard part
Profit of y/e 31 August 2023 = £197,496 **[½]**

Step 2 Transition part
Profit of 1 September 2023 to 31 March 2024
= 7/12 x £220,000 = £128,333 **[½]**

Step 3 Step 2 less overlap profits
= £128,333 - £100,000 = £28,333 **[½]**

Step 4 Step 1 plus step 3
£197,496 + £28,333 = £225,829 **[½]**

Step 5 Transition profits are lower of step 3 and step 4
Transition profits = £28,333 **[½]**
Spread over 5 years = £5,667 per year **[½]**

Step 6 Step 1 = profit, step 1 plus appropriate proportion of transition profits
£197,496 + £5,667 = £203,163 **[½][½]**

Assessable trading profits of 2023/24 = £203,163

Total 4

Alternative calculation:

2023/24	£	£
Normal CYB profit – y/e 31.8.23		197,496
Profit to 5.4.24:		
7/12 x 220,000	128,333	
Less: overlap profit b/f	(100,000)	
'Transition profit'		28,333
Total profit		225,829
Lower of:		
Total profit: 225,829		
Transition profit: 28,333	28,333	
Spread over 5 years, ie £5,667 per year		
Assessable profits:		
Normal CYB profit	197,496	
Spread transition profit	5,667	
Assessable in 2023/24		203,163

Total for question 16

4. EDWARD JONES

1) Trading income assessments & trading loss of 2023/24

	£	
2019/20: Y/e 31 December 2019	28,000	[½]
2020/21: Y/e 31 December 2020	16,000	[½]
2021/22: Y/e 31 December 2021	19,000	[½]
2022/23: Y/e 31 December 2022	3,000	[½]
2023/24: 9 m/e 30 September 2023	(30,000)	[½]
Less: unrelieved overlap profits	(4,500)	[½]
Trade loss of 2023/24	(34,500)	

Total 3

2) Terminal loss

Terminal loss is loss of final 12 months of trade = 1 October 2022 – 30 September 2023

	£	£	
2023/24			
6 April 2023 – 30 September 2023			[½]
6/9 x (30,000)	(20,000)		[½]
Less: Overlap relief	(4,500)		[½]
		(24,500)	
2022/23			
1 October 2022 – 5 April 2023			[½]
1 January 2023 – 5 April 2023			
3/9 x (30,000)	(10,000)		[½]
1 October 2022 – 31 December 2022			
3/12 x 3,000	750		[½]
		(9,250)	
Terminal loss		(33,750)	

The terminal loss is set against the trading income of the three previous tax years on a last in first out basis.

	2020/21	2021/22	2022/23	2023/24	
	£	£	£	£	
Trading income	16,000	19,000	3,000	Nil	
Terminal loss relief	(11,750)	(19,000)	(3,000)		[1]
	4,250	Nil	Nil		

Total 4

Tutorial Note:

The actual trading loss of 2023/24 is £34,500. All of this loss can be used under s.64 ITA 2007 against the net income or 2023/24 and/or 2022/23. Following a s.64 claim in a tax year, some of the unrelieved trade loss can be converted to a capital loss under s.71 ITA 2007.

In addition, £33,750 of the trade loss can be used as a terminal loss as shown above. A terminal loss claim can be made before or after a s.64 ITA 2007 claim is made.

3)

Any amount received after cessation of trade in settlement of the debt is a post-cessation receipt. **[½]**

Income tax is charged on post-cessation receipts in the tax year in which they are received. **[½]**

An election can be made to have the post cessation receipt treated as trading income of the tax year of cessation, **[½]** provided the amount is received in a tax year beginning no later than six years after the trade permanently ceased. **[½]**

This election must be made no later than the first anniversary of 31 January following the tax year of actual receipt. **[½]**

This election would be beneficial for Edward to utilise any unrelieved trading losses incurred in the final tax year of trade. **[½]**

Although the additional tax is calculated by reference to the tax position of the earlier year, **[½]** it is treated as tax payable for the later year (for interest and penalty purposes). **[½]**

Max 2

[ITTOIA 2005 ss.256-257]

4)

You should write to Edward advising him to disclose the omission of rental income to HMRC. **[½]**

You should explain to him that if he refuses you must cease to act for him. **[½]**

You can only notify HMRC of the omission with his permission. **[½]**

If he refuses, you must cease to act, and write to HMRC informing them that you have ceased to act but give no reason. **[½]**

You should consider if you need to advise HMRC that any accounts or statements carrying a report signed by you can no longer be relied upon. **[½]**

If a new accountant asks for professional clearance, you cannot tell them but should refer them to your correspondence with your client. **[½]**

You should consider making a report under the money laundering regulations. **[½]**

Max 3

[Professional Responsibilities & Ethics for Tax Practitioners Text (6th edition) - Chapter 23 'Dealing with errors']

Tutorial Note:

All valid points from Chapter 23 of the above-mentioned Ethics text will gain credit.

Total for question 12

5. SHANIA

Our address

Your address

Date

Dear Shania,

Disposal of care home and company shares

Further to our meeting, I am writing to explain how your capital gains tax will be calculated and any relief that you might be able to claim.

Sale of property

The disposal of the property will be treated as a part disposal **[½]**. The gain is calculated as the sales proceeds less the cost of the part being sold **[½]**.

To calculate the cost of the part being sold, the original cost will be apportioned using the formula Cost x A/(A + B) **[1]**, with A being the market value of the part disposed of **[½]** and B being the market value of the part retained. **[½]**

Max 2

Sale of shares

The sale of the shares will also be calculated on the basis of the sales proceeds for the shares less half of the cost of the shares **[½]**. If the shares were acquired on different dates, then the share costs are pooled and the relevant proportion of the pool will be allocated to this sale **[1].**

Max 1

Calculation of gain

The two gains will be added together **[½]** or, if there is a capital loss, it will be netted against any gain **[½].**

Any capital loss brought forward will be deducted from the net gain **[½]** although the annual exempt amount is deducted before relief is given for capital losses brought forward **[½].**

The taxable gain will be taxed at 10% up to the basic rate band and 20% thereafter. **[1]** The amount taxable at the basic rate depends on how much of the band remains after your income has been taxed. However, if business asset disposal relief is available, then the gain will be taxed at 10% **[½]**.

Max 2

Business asset disposal relief

Business asset disposal relief (BADR) may be available on the sale of the shares and the property **[1].** The lifetime limit on gains qualifying for BADR is £1 million**. [½]**

To qualify for BADR, for the two years prior to the disposal **[½]** you need to have owned shares in a trading company **[½],** have worked for the company **[½]** and owned at least 5% of the share capital **[½]** which gives you the right to exercise at least 5% of the voting rights. **[½]**

As you are disposing of at least a 5% shareholding, this is a withdrawal from the business. **[½]**

As you are disposing of the property as well as the shares, then the sale of the property may qualify for BADR as an associated disposal **[1].** To qualify, the property needs to have been used by the company for at least two years, **[½]** and the property must have been owned by you for at least three years. **[½]**

If rent has been charged to Shania Care Ltd for the use of the property this will restrict the availability of BADR. **[½]**

If you have any queries on the information provided, then please do not hesitate to contact me.

Max 5

Yours sincerely,

Tax Adviser

Total for question 10

6. POPPY

Our address

Your address

Date

Dear Poppy

I have set out below my response to your recent queries.

1) Flat rate expense for current car

You are not able to claim a flat rate expense for 2023/24 in respect of your current car because you have already claimed capital allowances on this car. **[½]** A flat rate expense cannot be claimed where capital allowances have been claimed in respect of a vehicle. **[½]**

You must therefore continue to claim capital allowances on the tax written down value of this car **[½]** along with the business element of the car's running costs. **[½]**

Total 2

2) Flat rate expenses for the business use of your home

Where a sole trader uses their home for business purposes, a monthly flat rate expense can be claimed **[½]** in respect of household running costs for utilities such as gas and electricity instead of claiming the actual business proportion of these expenses. **[½]**

Claiming this flat rate expense does not prevent a separate deduction being available for fixed costs **[½]** such as council tax, insurance and mortgage interest and for telephone and broadband or internet costs where an identifiable proportion can be attributed to business use. **[½]**

The amount of the flat rate expense depends on the number of hours worked in the home each month. **[½]** If the number of working hours in the home varies each month, then the amount of the expense which can be claimed will vary for each month of the accounting period. **[½]**

The flat rate expense can only be claimed for months where at least 25 hours are worked at home during the month. The monthly expense is £10 where 25 – 50 hours are worked, rising to £18 for 51 – 100 hours and £26 for more than 100 hours. **[1]**

Max 3

3) Relief for new vehicle under the cash basis

Car

If the car is acquired, you will not be able to deduct the initial capital cost of the car under the cash basis. **[½]** Instead you can choose to either claim relief via:

- flat rate expenses, **[½]** or
- capital allowances, along with the business use proportion of the car's running costs. **[½]**

If flat rate expenses are claimed, you will not obtain any specific relief for the initial capital cost of the car. Instead, you will obtain relief for all costs related to the car through the flat rate expense. **[½]**

The amount of the flat rate expense is based on the business mileage driven during the period. **[½]** The first 10,000 miles obtain relief at a rate of 45p per mile and any additional miles obtain relief at a rate of 25p per mile. **[½]**

Based on business mileage of 5,000 miles per annum you would be able to claim a flat rate expense each year of £2,250 (5,000 x 45p). **[½]**

If flat rate expenses are not claimed, you can claim capital allowances in respect of the car. **[½]** As the car has CO_2 emissions of more than 50g/km, the rate of writing down allowance available would be 6%, with relief restricted in respect of private use. **[½]**

The amount available to deduct from profits in the year ended 31 March 2026 would be £20,000 x 6% = £1,200 x 70% business use = £840. **[½]**

In addition, you would be able to claim a deduction for 70% of the running costs of the car being £1,330 (£1,900 x 70%). **[½]**

<u>Van</u>

If the van is acquired, you can choose to claim relief under the cash basis via:

- flat rate expenses, **[½]** or
- deducting the initial capital cost of the van in full, along with the total running costs incurred each year. **[½]**

If flat rate expenses are claimed, the relief available each year would be £2,250 being 5,000 business miles at a rate of 45p per mile, as discussed above in respect of the car. **[½]**

If flat rate expenses are not claimed, the full cost of £15,000 would be deducted in arriving at taxable profits for the year ended 31 March 2026. **[½]**

In addition, the total running costs of £1,500 per annum would be deducted each year. **[½]**

There is no restriction on either of these amounts as the van would be used 100% for business purposes. **[½]**

You should note that once you have chosen the method of relief for either vehicle, you must continue to obtain relief on this basis for as long as the vehicle is used in the business. **[½]**

Max 8

Yours sincerely,

Tax Adviser

Total for question 13

7. KANGAROO BLUE LTD

1) Accounts 9 month period ending 31 December 2023

	£	£	
Net profit		331,000	**[½]**
Add:			
Depreciation	10,250		**[½]**
Sales invoiced in January 2024	25,000		**[½]**
Legal fees re company formation	1,250		**[½]**
Client entertaining	256		**[½]**
General office costs	-		**[½]**
		36,756	
Less:			
Class 1A (W1)	(304)		**[½]**
Rent (1 Jan 2023 – 31 March 2023)	(5,000)		**[½]**
Capital allowances (W2)	(75,000)		**[½]**
		(80,304)	
Trading profits = Taxable total profits		287,452	**[½]**

Tutorial Note:

The golf club membership and health insurance are allowable expenses for the company because they are part of the directors' remuneration. The directors will be assessed to tax on these benefits in calculating their employment income.

	£	
TTP (= Augmented profits)	287,452	
CT liability:		
FY 2023		
287,452 x 25%	71,863	**[½]**
Large company threshold = 1,500,000 x 9/12	1,125,000	
Due by instalments?	No	
Corporation tax is due by	1 October 2024	**[½]**

Workings

W1) Class 1A

	£	
Golf club membership	1,000	
Health insurance	1,200	
	2,200	**[½]**
£2,200 @ 13.8%	304	**[½]**

W2) Capital allowances

9 m/e 31 December 2023	AIA @ 100% £	Main pool £	CAs £	
Additions:				
Office equipment	75,000			**[½]**
AIA @ 100%	(75,000)		75,000	**[½]**
Tax wdv c/f	Nil	Nil		

Total 8

Tutorial Note:

The AIA has been claimed here in respect of the office equipment rather than the 100% temporary FYA (expenditure after 31.3.23) as this will avoid any potential balancing charge on the disposal of the machinery. However, the ATT have confirmed that as the allowances for the period are the same either way full marks will be given for either choice.

2)

HMRC must be notified of commencement of trade within three months from the date of commencement. **[½]**

The first day of trading is the first day of a corporation tax accounting period if there have been no other sources of income. **[½]**

Total 1

3)

The corporation tax return for the 9 months ended 31 December 2023 must be submitted online **[½]** within one year of the end of the accounting period, ie by 31 December 2024. **[½]**

Total 1

Total for question 10

8. HATNUT LTD

1) Corporation Tax Payable

	Y/e 31 August 2023	4 m/e 31 December 2023	[½]
	£	£	
Trading profit (W2)	481,546	120,369	[½]
Interest receivable (200 x 12/16 : 4/16)	150	50	[½]
Rental income (14,000 x 10/14 : 4/14)	10,000	4,000	[½]
Chargeable gain		16,000	[½]
Qualifying charitable donations	(12,000)	-	[½]
TTP	479,696	140,419	[½]

CT liabilities:

TTP	479,696	140,419	
Dividends received	20,000		
Augmented profits	499,696	140,419	
Upper limit for FY 2023	250,000	83,333	
CT rate in FY2023	Main rate	Main rate	
Y/e 31 August 2023			
FY 2022			
479,696 x 7/12 x 19%	53,166		[½]
FY 2023			
479,696 x 5/12 x 25%	49,968		[½]
	103,134		
4 m/e 31 December 2023			
140,419 x 25%		35,105	[½]

W1) Capital allowances on P&M

Y/e 31 August 2023	AIA @ 100% £	Main pool £	CAs £	[½]
Tax wdv b/f		480,300		
Additions:				
Office equipment (second-hand)	32,000			[½]
AIA @ 100%	(32,000)		32,000	[½]
WDA @ 18%		(86,454)	86,454	[½]
	Nil	393,846	118,454	
4 m/e 31 December 2023				[½]
Tax wdv b/f		393,846		
Additions:				
Air conditioning	68,000			[½]
AIA @ 100%	(68,000)		68,000	[½]
WDA @ 18% x 4/12		(23,631)	23,631	[½]
Tax wdv c/f		370,215	91,631	

Max AIA for 4 m/e 31 December 2023 = £1,000,000 x 4/12 = £333,333

Tutorial Note:

The office equipment was bought second-hand, therefore the FYA @ 130% is not available for this expenditure even though it was bought before 1 April 2023.

The air conditioning units bought on 1 October 2023 are integral features for capital allowance purposes which is special rate pool expenditure. However, as the AIA @ 100% is available for the 4 m/e 31 December 2023 this is used in preference to the FYA @ 50%.

A balancing charge arises on the disposal of the machine on which the 130% FYA had previously been claimed. As 4 m/e 31 December 2023 begins after 1 April 2023 the balancing charge is calculated as 100% of sale proceeds.

W2) Trading Profit

	Y/e 31 August 2023 £	4 m/e 31 December 2023	
Tax adjusted trading profit before CAs (800,000 x 12/16 : x 4/16)	600,000	200,000	**[½]**
Add: Balancing charge re sale of machine 12,000 x 100%		12,000	**[1]**
Less: Capital allowances on P&M (W1)	(118,454)	(91,631)	
Trading Profit	481,546	120,369	**[½]**

Total 11

2)

Due date for filing

Both returns should be filed online by 31 December 2024. **[½][½]**

The augmented profits figure determines whether the company pays tax in instalments.

	Y/e 31 August 2023 £	4 m/e 31 December 2023 £
Large company threshold	1,500,000	500,000
Augmented profits	499,696	140,419
Quarterly instalments	No	No

Due date for payment

Year ended 31 August 2023	1 June 2024	**[½]**
4 months ended 31 December 2023	1 October 2024	**[½]**

Total 2

3) Records

Companies must keep all records used in making and delivering a correct tax return. **[½]**

The records must include records of:

- all receipts and expenses in the course of the company's activities, **[½]** and
- all sales and purchases made in the course of trade. **[½]**

The records must be retained until the later of: **[½]**

- six years from the end of the accounting period, **[½]**
- the date after which enquiries may not be commenced, **[½]** and
- the date any enquiries are complete. **[½]**

A company which fails to keep and preserve records for the required time period is liable to a penalty not exceeding £3,000 per accounting period. **[½]**

Max 3

[FA 1998 Sch 18 paras 21 & 23]

4) Options for relieving the trading loss

Hatnut Ltd can make a claim **[½]** to set the trading loss against its 'total profits' **[½]** (that is income and gains before deducting qualifying charitable donations) of the year ended 31 December 2024 (the loss making accounting period). **[½]**

After a claim has been made against the total profits of the year ended 31 December 2024, Hatnut Ltd can claim to set the remaining loss against the total profits of the previous 12 months**. [½]** In this case it would set the loss against its total profits in the four months to 31 December 2023 first, and then against 8/12 of the total profits in the year ended 31 August 2023. **[½]**

The above claims are 'all or nothing' claims which means that if there is enough loss to do so, Hatnut Ltd must reduce its total profits down to nil in each period. **[½]**

The trading loss can be carried forward and a claim made **[½]** to set it (or a specified amount of it) against the total profits **[½]** of the next accounting period (subject to the restriction on loss relief carried forward).

Max 3

[CTA 2010 s.37(3), s.39 & s.45A(5,6)]

Tutorial Note:

The maximum amount of carried forward losses which may be offset against profits is the lower of:

- the unrelieved carried forward losses; and
- the deductions allowance plus 50% x (unrelieved profits – deductions allowance)

The deductions allowance is £5m per group or standalone company.

'Unrelieved profits' means total profits less any current year loss relief.

Total for question 19

9. ROYSTON LTD

1) New heating system

- Capital allowances are given in the accounting period in which expenditure is incurred. **[½]**
- Expenditure is generally incurred when there is an unconditional obligation to pay, **[½]** ie in this case the date each part of the contract is certified. **[½]**
- Amounts incurred in y/e 31 March 2024:
- £500,000 (40% x £1,250,000) paid on 30 September 2023 **[½]**
- £500,000 (40% x £1,250,000) paid on 31 December 2023 **[½]**

  ie £1,000,000

- £250,000 paid on 31 May 2024 will not be given capital allowances until year ended 31 March 2025. **[½]**
- The £1,000,000 is eligible for the Annual Investment Allowance (AIA) at 100%. **[½]** Although the new heating system is an integral feature and is eligible for the FYA at 50% because it is new special rate pool expenditure, it is more beneficial to claim the AIA rather than the 50% FYA. **[½]**

Tutorial Note:

For plant and machinery which is constructed, the asset becomes the property of the purchaser as it is being constructed. The obligation to pay for part of an asset that has been completed becomes unconditional when the work is certified by an architect or engineer who has inspected the work done.

2) Finance Lease Car

- Capital allowances are not available in respect of the car as it is acquired under a finance lease. **[½]**
- The finance lease depreciation and interest expense that has been charged to the profit and loss account are allowable expenses in calculating trade profits, **[½]** restricted to 85% **[½]** as CO_2 emissions > 50g/km. **[½]**

3) New vans

- Vans qualify for the FYA at 100% **[½]** because the expenditure is incurred between 1 April 2023 and 31 March 2026 (the AIA has already been used up). **[½]**

4) Car

- 100% FYA on electric cars but only if purchased new. **[½]**
- Car is second hand therefore normal WDA @ 18%. **[½]**

5) New office building

- The new office building qualifies for the structures and buildings allowance (SBA) at 3% per annum. **[½]**
- The SBA is given on the qualifying cost of the building which excludes the costs of the land **[½]** and the cost of the integral features. **[½]**
- Qualifying cost is therefore £360,000 - £80,000 - £40,000 = £240,000. **[½]**
- The SBA is calculated from the date the building is first used for the company's trade, **[½]** ie from 1 January 2024. **[½]**
- The £40,000 cost of the integral features is eligible for the FYA @ 50% **[½]** (as the AIA has already been used up).

Tutorial Note:

Credit would be given if the AIA was allocated in full to this expenditure and the balance of the AIA allocated to the heating system.

Royston Ltd – Capital allowances on P&M for the year ended 31 March 2024

	FYA @ 50% £	FYA @ 100% £	AIA @ 100% £	Main pool £	SR pool £	CAs £	
Tax wdv b/f				279,000			
Additions:							
Heating system			1,000,000				
Vans		140,000					
Second-hand electric car				16,000			
Integral features	40,000						
	40,000	140,000	1,000,000	295,000			
FYA @ 50%	(20,000)					20,000	**[½]**
FYA @ 100%		(140,000)				140,000	**[½]**
AIA @ 100%			(1,000,000)			1,000,000	**[½]**
WDA @ 18%				(53,100)		53,100	**[½]**
Transfer to SR pool	(20,000)				20,000		**[½]**
	Nil	Nil	Nil	241,900	20,000		
Total CAs						1,213,100	**[½]**

Royston Ltd – SBA for the year ended 31 March 2024

£240,000 x 3% x 3/12 = £1,800 **[½]**

Total for question 15

10. LUKE PRITCHARD

Firm's headed notepaper

Your address

Date

Dear Luke,

I have outlined the key differences between the taxation of a company and a sole trader below and provided an explanation of when VAT registration will be required.

Company or sole trader?

The company will pay corporation tax on its taxable total profits for each corporation tax accounting period. **[½]** The first corporation tax accounting period will be the 9 months to 31 March 2025. **[½]**

Given the level of your anticipated taxable total profits the rate of corporation tax payable will be 25% less marginal relief **[½]**. Marginal relief applies where profits are between £50,000 and £250,000 and reduces the corporation tax payable. **[½]**

Corporation tax is payable by the company no later than nine months and one day from the end of the corporation tax accounting period, **[½]** ie by 1 January 2026 **[½]** in respect of the period ended 31 March 2025.

Operating through a company, you can withdraw profits either via a salary or as dividends. **[½]**

If you take a salary, the company will have to pay Class 1 secondary NICs **[½]** in addition to the Class 1 primary NICs that you will incur as a director. **[½]** The company will however obtain tax relief for both the salary and any Class 1 secondary NICs paid. **[½]**

Although there is a £5,000 employment allowance available to reduce an employer's class 1 secondary NICs bill, this would not be available to you if you were the only employee of the company as 'one man companies' cannot claim the employment allowance. **[½]**

By taking dividends instead of salary, neither you nor the company will be liable for NICs, **[½]** however no corporation tax relief is given for dividends paid. **[½]**

As a sole trader you will pay income tax on profits of the tax year, **[½]** with those profits being reported on your self-assessment return. Any drawings you make from your business will not be tax deductible. **[½]**

For the first tax year (2024/25) **[½]** you will pay tax on the profits of the period from 1 July 2024 to 31 March 2025**.** **[½]**

In 2025/26 you will be taxed on the profits of the year ended 31 March 2026 and so on. **[½]**

Given your estimated profits you will pay some income tax at 20% and some at 40%. **[½]**

As a sole trader you will pay Class 2 and Class 4 National Insurance rather than Class 1 NICs as a director of a company. **[½]**

Max 9

<u>VAT registration</u>

Registration for VAT is compulsory if, looking at the end of a calendar month, your turnover (ie sales) of taxable supplies **[½]** in the previous 12 months (or from the date of commencement if shorter) **[½]** exceed the VAT registration threshold which is currently £85,000. **[½]**

Based on your business plan, you will breach the threshold on 31 December 2024, **[½]** so you should notify HMRC of your requirement to register for VAT by 30 January 2025 **[½]** and should charge VAT on sales from 1 February 2025. **[½]**

The main effect of being VAT registered is that you must charge VAT at the standard rate on all your sales. **[½]**

You will however be able to recover any VAT you incur on your purchases, **[½]** expenses and capital assets used in the business. **[½]**

You will also have to file quarterly VAT returns. **[½]**

The quarterly VAT returns are due to be submitted online **[½]** within seven days and one month of the end of the return period. **[½]** Any VAT you owe is also payable at this point. **[½]**

If you set up a direct debit to pay the VAT owed, payment is normally taken three days after the normal payment date. **[½]**

Max 5

Please do not hesitate to get in touch if I can be of any further assistance.

Yours sincerely,

Tax Adviser

Total for question 14