Tolley® Exam Training

ATT PAPER 2

BUSINESS TAXATION

PRE REVISION QUESTION BANK

FA 2019

May and November 2020 Sittings

PQ762
ATT

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 2019).

Format of the exam

All the ATT exams are **3¼ 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.

Part I is printed as a **question and answer booklet** with each short form question (SFQ) at the top on the left hand side of the page – the rest of that page and the whole of the next page will be lined paper for you to write your answer to that SFQ. This booklet will be **green.**

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.

The Part II questions will be printed separately and there will be a Part II answer booklet which will be **orange** with lined paper for you to write your answers in.

Pre exam reading time

The initial 15 minutes of the exam are pre examination reading time (PERT). During this time you are permitted to **read and annotate the questions for Part II only** and read the legislation**,** but you **may not write in the orange answer booklet for Part II** and you **may not read/annotate the green question and answer booklet for Part I.**

Calculators may be used during this 15 minute period. There will be an announcement at the end of the 15 minutes reading time after which you may start writing in the answer booklets.

During the 3 hour writing period we recommend you initially **allocate 1.7 minutes per mark** to allow time for a final review stage at the end of each question.

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 **write the answers out** yourself.

Writing "proper" answers also gives you a good idea of how long an exam standard answer will take you to write.

Reviewing your answers

It is essential to read through your answer when you have finished writing it. We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – <u>before</u> you look at our 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? You want those red ticks to be flowing freely onto your page!

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

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”, i.e. 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. We have also included some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions is good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (5th edition) that are included in the Paper 2 syllabus are:

Chapter 7 Criminal Law and Tort
Chapter 13 Sole Traders and Partnerships
Chapter 18 Company Law: The Basics
Chapter 19 Company Law: Share and Loan Capital
Chapter 20 Company Law: Sale of Shares and Assets

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (5th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)
Chapter 4 New clients and engagement letters
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 (2019)
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 D: Request for data by HMRC
Chapter 25 Help sheet E: Members’ personal tax affairs

CONTENTS

SHORT FORM QUESTIONS

LONG QUESTIONS

ATT EXAMINATIONS
2020
TAX TABLES

INCOME TAX

	2019/20
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	7.5
Dividend upper rate	32.5
Dividend additional rate and trust rate for dividends	38.1

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,500
Higher rate band	37,501 – 150,000
Dividend Allowance	2,000
Personal 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 – 2,049	19
2,050 – 12,444	20
12,445 – 30,930	21
30,931 – 150,000	41
150,000 +	46

Reliefs	£
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	8,915
– Maximum income before abatement of relief - £1 for £2	29,600
– Minimum allowance	3,450
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,450
Enterprise investment scheme relief limit (Relief at 30%) (Note 6)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	100,000
Social investment relief limit (Relief at 30%)	1,000,000

Notes
(1) Welsh taxpayers pay Welsh income tax on non-savings income from 6 April 2019. For 2019/20, 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) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(5) 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.
(6) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ATT EXAMINATIONS
2020
TAX TABLES

ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	4,368

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note)	**Lifetime allowance**	**Minimum pension age**
	£	£	
2019/20	40,000	1,055,000	55

Note The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. It cannot be reduced below £10,000.

ITEPA mileage rates

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

Note For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2019/20

	Car benefit % (Note)	
Emissions		
0 – 50g/km	16%	
51 – 75g/km	19%	
76 – 94g/km	22%	
95g/km or more	23%	+ 1% for every additional whole 5g/km above 95g/km
165g/km or more	37%	

Fuel benefit base figure £24,100

Note 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard.

Taxable benefits for vans – 2019/20	**£**
Van benefit – No CO_2 emissions	2,058
Van benefit – CO_2 emissions > 0g/km	3,430
Fuel benefit	655

Childcare

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

Note 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.

2019/20 Official rate of interest 2.5%

ATT EXAMINATIONS
2020
TAX TABLES

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans
Plan 1 (loan taken out pre 1.9.12 or at any time if taken out in Scotland)

Employee earnings threshold at which repayment begins is £1,577 per month.

Plan 2 (loan taken out in England and Wales on/after 1.9.12)

Employee earnings threshold at which repayment begins is £2,143 per month.

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

Postgraduate Loans
Employee earnings threshold at which repayment begins is £1,750 per month.

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

STATUTORY SICK PAY

		Weekly rate
Year to 5 April 2020		**£**
Average weekly gross earnings	£118.00 or more	94.25

STATUTORY MATERNITY PAY

Period	**First 6 weeks**	**Remaining weeks**
From 6 April 2019	90% average weekly earnings	Lower of 90% of weekly earnings & £148.68

QUALIFYING CARE RELIEF

	Flat rate	**Placement < 11**	**Placement ≥ 11**
Year to 5 April 2020	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2020

Rates	**Weekly rate**
First child	£20.70
Each subsequent child	£13.70

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

HARMONISED INTEREST REGIME – HMRC INTEREST RATES

Late payment	3.25%
Underpaid corporation tax instalments	1.75%
Repayment	0.5%

ATT EXAMINATIONS
2020
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits		**2019/20**	
	Annual	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,136	£512	£118
Primary threshold (PT)	£8,632	£719	£166
Secondary threshold (ST)	£8,632	£719	£166
Upper earnings limit (UEL)	£50,000	£4,167	£962
Upper secondary threshold for U21 (UST) (Note 1)	£50,000	£4,167	£962
Apprentice upper secondary threshold for U25 (AUST) (Note 2)	£50,000	£4,167	£962

	2019/20
Employment allowance	
Per year, per employer	£3,000
Class 1 primary contribution rates	
Earnings between PT and UEL (Note 3)	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 1 & 2)	13.8%
Other contribution limits and rates	
Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.00 pw
Small profits threshold	£6,365 pa
Class 3 contributions	£15.00 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£8,632
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

Notes
(1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.
(2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.
(3) The married women's reduced rate payable with a valid reduced rate election is 5.85%

ATT EXAMINATIONS
2020
TAX TABLES

SIMPLIFICATION MEASURES

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

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 (Notes 3 & 4)	6%
WDA on structures and buildings allowance (SBA) (Note 5)	2%

Notes
(1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019 to 31 December 2020 (£200,000 prior to 31 December 2018 and from 1 January 2021).
(2) The main pool rate applies to cars with CO_2 emissions of not more than 110 g/km.
(3) The special pool rate applies to cars with CO_2 emissions greater than 110 g/km.
(4) The special pool rate was 8% prior to 6 April 2019 (1 April 2019 for companies).
(5) The SBA rate of 2% applies to expenditure from 29 October 2018 on new qualifying non-residential structures and buildings on a straight-line basis.

First year allowances available to all businesses
1) New energy-saving plant and machinery and water efficient plant and machinery (until April 2020).
2) Capital expenditure incurred by a person on research and development.
3) New zero-emission goods vehicles (until April 2021).
4) New cars registered before 31 March 2021 if the car either emits not more than 50 g/km of CO_2 or it is electrically propelled.
5) Electric vehicle charging points expenditure incurred from 23 November 2016 until April 2023.

CORPORATION TAX

Financial year	**2019**	**2018**
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies - RDEC	12%

Note Small and medium sized enterprises (SMEs) must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

ATT EXAMINATIONS
2020
TAX TABLES

VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits	**From 1.4.19**
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

INHERITANCE TAX

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

Note A lower rate of IHT of 36% applies where 10% of more of the deceased person'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 2021	£325,000

Residence nil rate bands (Note)

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 2021	£175,000

Note 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
2020
TAX TABLES

CAPITAL GAINS TAX

	2019/20
Annual exempt amount	£12,000

CGT rates for individuals (Notes 1 & 2)

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

CGT Rate for PRs

All gains (Note 5)	20%

Entrepreneurs' relief

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 entrepreneurs' relief/investors' relief first.
(3) The remaining basic rate band is calculated as £37,500 (2019/20) less taxable income less any gains on which entrepreneurs' relief 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

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
2020
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. Don commenced trading as a carpenter on 1 January 2017. Accounts are prepared annually until 31 December 2018, when the accounting date is changed to 30 September.

   Don's tax-adjusted trading profits are as follows:

	£
Year ended 31 December 2017	120,000
Year ended 31 December 2018	240,000
Period ended 30 September 2019	450,000

   Calculate the taxable trading profits for 2019/20. (3)

2. Edwina is an employee of Eggcellence Ltd. She has the use of a company car, resulting in an assessable car benefit of £5,500 and a fuel benefit of £4,662.

   Calculate the Class 1A National Insurance Contributions due in respect of Edwina's car for 2019/20 and state who is responsible for paying them and by what date they must be paid. (2)

3. 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 2020 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 amount by which his trading profit is increased as a result of the above adjustments. (2)

4. Paula has been self-employed for many years. Her taxable trading profits for 2019/20 are £52,000.

   Calculate the National Insurance Contributions payable by Paula for 2019/20 and state when they are payable. (3)

5. Peter, Paul and Mary have been partners for many years sharing profits and losses equally. On 31 August 2019 Mary retired. Peter & Paul decided to continue in business sharing profits and losses 60:40 after taking salaries of £12,000 and £24,000 respectively.

   Profits for the year ended 31 December 2019 were £180,000.

   Mary has unrelieved overlap profits from the commencement of trade of £6,000.

   Compute each partner's taxable profit for 2019/20. (4)

6. Terence, who has been trading for several years, had the following results:

	2018/19	2019/20
	£	£
Trading profit/(loss)	20,000	(180,000)
Dividends (gross)	150,000	210,000

Terence comes from a wealthy family and receives the above dividend income from his various shareholdings.

Calculate Terence's net income for 2018/19 and 2019/20 assuming maximum loss relief is claimed under s.64 ITA 2007. (4)

7. Stonegate Ltd makes baby monitors. On 1 February 2020 the company received an order. The monitors were delivered to the customer on 22 February 2020 and an invoice was issued on 4 March 2020. The customer settled the invoice on 25 April 2020.

Show the tax point for the above supply. (2)

8. Petite Ltd started trading on 1 April 2019 drawing accounts to 30 September 2019. It purchased the following equipment:

Date	Description	Amount £
1 April 2019	Machinery	510,000
10 May 2019	Car – CO_2 emissions 121g/km	20,000

The car is used by the managing director who uses the car 20% of the time for private purposes.

Calculate the maximum capital allowances Petite Ltd can claim for the period ended 30 September 2019. (4)

9. AMB Ltd prepares accounts to 30 June and has one related 51% group company.

The following information relates to the year ended 30 June 2019:

	£
Trade profit	300,000
UK property business profits	70,000
Chargeable gain	30,000
Dividends received from non-group UK companies	5,000

Calculate the Corporation Tax liability for AMB Ltd for the year ended 30 June 2019. (2)

10. John is a plumber. He has traded as a sole trader for many years preparing accounts to 31 December each year. He bought a new van for £20,000 on 1 January 2019 which he uses 80% of the time for business purposes.

    The annual running costs of the van are £3,800 and John estimates that he will drive a total of 15,000 miles each year in the van.

    John would like to know whether or not he should claim the flat rate expense in respect of this new van in his year ended 31 December 2019. He is not eligible to elect for the cash basis of accounting.

    Briefly explain the total tax relief available re the van for the year ended 31 December 2019 if:

    - **John claims flat rate expenses in respect of motor expenses, and**

    - **If John does not claim flat rate expenses in respect of motor expenses.**

    (4)

11. Elouise makes and sells snow globes in her spare time. Her sales receipts for 2019/20 were £600 and she incurred £700 of allowable expenses.

    Simon makes and sells children's toyboxes in his spare time. His sales receipts for 2019/20 were £3,200 and he incurred £800 of allowable expenses.

    Calculate the trading income for Elouise and Simon for 2019/20 assuming they make any beneficial elections. (2)

12. David and Ed have been in partnership for several years, sharing capital profits and losses in the ratio 3:2.

    On 1 July 2019 the partnership sold a commercial investment property for £380,000. The property had cost £160,000 in October 2005.

    David had taxable income of £160,000 in 2019/20.

    Calculate David's 2019/20 capital gains tax liability. (3)

13. Isobel realised a chargeable gain of £20,000 and an allowable loss of £5,000 in 2019/20. She had capital losses brought forward of £16,000.

    Calculate the capital losses available to carry forward to 2020/21. (2)

14. Tom, a higher rate taxpayer, had run a widget manufacturing business for many years and decided to sell it in November 2019. He wishes to claim entrepreneurs' relief in respect of the gains made.

    State:

    - **the maximum amount of gain that will qualify for relief,**
    - **the way in which relief will be given, and**
    - **the time limit for making the claim.**

    (3)

TEST "A"
ANSWERS

1.

1) Tax year of change is earlier of:
No old AP end, i.e. 31 December 2019 = 2019/20
1st new AP end, i.e. 30 September 2019 = 2019/20
Therefore 2019/20

2) 2018/19 = y/e 31 December 2018
2020/21 = y/e 30 September 2020

3) 2019/20 'Gap' 1 January 2019 to 30 September 2019. Less than 12 months, therefore tax 12 months to 30 September 2019:

	£
Period ended 30 September 2019	450,000
1 October 2018 – 31 December 2018 (3/12 x 240,000)	60,000
Trading profits	510,000

Tutorial Note:

£60,000 of extra overlap profits are created relating to the three months 1 October 2018 – 31 December 2018 that are taxed twice.

2.

Class 1A NIC 13.8% of £10,162 (5,500 + 4,662)	£1,402

Class 1A NIC are payable by the employer (Eggcellence Ltd). For 2019/20 they must be paid by 22 July 2020 where payment is made electronically (19 July otherwise).

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

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

4.

	£
Class 2 NIC	
52 x £3.00	156
Class 4 NIC	
(50,000 – 8,632) x 9%	3,723
(52,000 – 50,000) x 2%	40
Total Class 4 NIC	3,763

Class 2 NIC is payable as part of the balancing payment for the tax year, on 31 January 2021.

Class 4 NICs are payable in the same way as income tax under self-assessment – payments on account are due on 31 January 2020 and 31 July 2020 (each payment on account being 50% of the liability for 2018/19) and a balancing payment is due on 31 January 2021.

5.

Y/e 31 December 2019	Total £	Peter £	Paul £	Mary £
1.1.19 – 31.8.19				
8/12 x 180,000	120,000			
Shared equally	(120,000)	40,000	40,000	40,000
	Nil			
1.9.19 – 31.12.19				
4/12 x 180,000	60,000			
Salaries				
(12,000 / 24,000) x 4/12	(12,000)	4,000	8,000	
	48,000			
Balance 60:40	(48,000)	28,800	19,200	
	Nil	72,800	67,200	

2019/20

Current Year Basis (ie y/e 31 December 2019):

	Peter	Paul
Peter	72,800	
Paul		67,200

Closing Year Rules:

Mary	£
8 months ended 31 August 2019	40,000
Less: Unrelieved overlap profits (given)	(6,000)
Trading profits	34,000

Tutorial Note:

Mary's final accounting period is the eight months to 31 August 2019.

6.

	2018/19	2019/20
	£	£
Trading income	20,000	Nil
Dividend income	150,000	210,000
	170,000	210,000
Less: Loss relief (W)	(70,000)	(52,500)
Net income	100,000	157,500

Working

Loss relief against income in 2018/19

Against:	£
Trading income	20,000
Non-trading income = greater of:	
£50,000; and	
25% of £170,000 = £42,500	50,000
	70,000
Loss remaining (180,000 – 70,000)	(110,000)

Loss relief against income in 2019/20

Against:	£
Trading income	Nil
Non-trading income = greater of:	
£50,000; and	
25% of 210,000 = 52,500	52,500
	52,500
Loss remaining (110,000 – 52,500)	(57,500)

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. The restriction does not however apply to trading losses which are set against chargeable gains.

7. Basic tax point = the date of despatch 22 February 2020

Actual tax point = the invoice date of 4 March 2020 as this is within 14 days after the basic tax point

VATA 1994, s.6

8.

6 m/e 30 September 2019	AIA @ 100%	General Pool	Special Rate Pool	Capital Allowances
	£	£	£	£
Additions:				
1.4.19 Machinery	500,000	10,000		
10.5.19 Car (CO_2 > 110 g/km)			20,000	
	500,000	10,000	20,000	
AIA @ 100%	(500,000)			500,000
WDA @ 18% x 6/12		(900)		900
WDA @ 6% x 6/12			(600)	600
Tax wdv c/f		9,100	19,400	
				501,500

Maximum AIA = 6/12 x 1,000,000 = 500,000

Tutorial Note:

Company, therefore private use ignored

9.

	Y/e 30 June 2019
	£
Trade profit	300,000
UK property business profits	70,000
Chargeable gain	30,000
Taxable total profits	400,000

CT liability:

400,000 x 19% 76,000

Tutorial Note:

Related 51% group companies and dividends do not affect taxable total profits. However, they both affect the determination of when a company must pay its corporation tax liability which was not asked for in this question.

10. <u>If flat rate expenses are claimed for motor expenses:</u>

Business miles driven = 15,000 x 80% = 12,000
Flat rate expenses = (10,000 x 45p) + (2,000 x 25p) = £5,000

No capital allowances are available

No relief for the business element of the van running costs (as relief is given within the flat rate expense)

Total tax relief = <u>£5,000</u>

<u>If flat rate expenses are not claimed for motor expenses:</u>

Capital allowances available = £20,000 x 100% AIA x 80% business use = £16,000

Tax relief also available for the business element of the van running costs = 80% x £3,800 = £3,040

Total tax relief = £16,000 + £3,040 = <u>£19,040</u>

11.

<u>Elouise</u>

Sales income	600
Less: Allowable expenses	(700)
Trade loss	(100)

<u>Simon</u>

Sales income	3,200
Less: Trading allowance	(1,000)
Trade profit	2,200

<u>Tutorial Notes:</u>

Elouise should make an election for the trading allowance not to apply to create a trade loss.

Simon should make an election for the trading allowance as this is greater than his allowable expenses.

12. <u>Partnership disposal</u>

	David's Gain
	£
Sale proceeds (3/5 x 380,000)	228,000
Less: Cost (3/5 x 160,000)	(96,000)
Chargeable gain	132,000
Less: AEA	(12,000)
Taxable gain	120,000

<u>CGT Liability:</u>

120,000 @ 20%	24,000

<u>Tutorial Note:</u>

The disposal of the property would not have qualified for entrepreneurs' 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 David is not disposing of his partnership share.

13.

	£
Chargeable Gain	20,000
Less: CY loss	(5,000)
	15,000
Less: AEA	(12,000)
	3,000
Less: Losses b/f	(3,000)
Taxable gain	Nil
Losses c/f (16,000 – 3,000)	13,000

14. The maximum amount of lifetime gains qualifying for entrepreneur's relief is £10 million.

Any chargeable gains up to the lifetime limit will be charged to tax at a rate of 10% if a claim for entrepreneurs' relief is made (rather than at 20% for a higher rate taxpayer).

The claim for relief must be made by the first anniversary of 31 January following the tax year of disposal (ie for disposals in 2019/20 by 31 January 2022).

TEST "B"
(40 MARKS)

1. David commenced to trade on 1 December 2018, preparing his first accounts to 31 May 2019 and annually thereafter. His results for the opening periods were as follows:

		£
Period ended 31 May 2019	Loss	(18,000)
Year ended 31 May 2020	Profit	108,000

Calculate David's assessable profits for 2018/19, 2019/20 and 2020/21 (before any relief for losses) and also calculate any overlap profits to carry forward. (4)

2. Ruth commenced to trade on 1 June 2019. Her monthly turnover is expected to be as follows:

	£
Standard rated supplies	14,400
Exempt supplies	2,400
Zero-rated supplies	7,200
	24,000

On the basis of the above estimates state the latest date by which Ruth must notify her requirement to be registered for VAT and also state the date from which she will be so registered. (2)

3. Petula is a sole trader who runs a village store. The products sold by Petula include:

- Chocolate
- The local newspaper
- Locally produced cakes
- Postage stamps

State the VAT liability of the above supplies. (2)

4. Switch Ltd draws up accounts to 31 October each year.

At 1 November 2018 the tax written down value on the general pool was £15,000 and on the special rate pool was £966. Switch Ltd incurred the following expenditure in the year ended 31 October 2019:

		£
10.11.18	Machinery	780,000
29.10.19	Air conditioning and heating system in factory	242,000

Calculate the maximum capital allowances available for the year ended 31 October 2019. (4)

5. Andrew and Brad have been trading in partnership for many years drawing accounts to 30 June. Profits are shared 60:40 after a salary of £12,000 to Brad.

   On 1 January 2019 Claire joined the partnership. Profits were thereafter shared equally with no provision for salaries.

   Recent profits are as follows:

	£
Year ended 30 June 2018	120,000
Year ended 30 June 2019	150,000
Year ended 30 June 2020	180,000

   Calculate Claire's taxable trading profit for 2018/19 and 2019/20. (4)

6. Mr Angelo opened a café on 1 August 2018 and started to trade. His accounts for the year ended 31 July 2019 include the following expenses:

	£
Legal fees re new 12-year lease on premises	925
Premium paid for new lease (which started on 1 August 2018)	10,000

   Show the amount to be added back in calculating the trading profit in respect of the above expenses. (3)

7. Correction Ltd draws accounts to 31 July. The CT600 for the year ended 31 July 2019 was filed on 4 July 2020.

   State the due filing date of the corporation tax return for the year ended 31 July 2019 and the date by which either the company or HMRC can amend this return. (2)

8. Hyper-Mart plc prepares accounts to 31 August each year. Its taxable total profits for the year ended 31 August 2019 were £6 million.

   On 1 September 2019, Hyper-Mart plc was bought by Aldo SA and changed its accounts year end to 31 March to correspond with that of its new parent. The corporation tax liability for the period ended 31 March 2020 was £945,000.

   State when the Corporation Tax liability for the period ended 31 March 2020 should have been paid and show the amount due on each date. (3)

9. Cath started to run a small cafe called 'Cafe in the Park' on 1 April 2019. She incurred £15,000 of capital expenditure on plant and machinery in her first year and expects her business receipts to be in the region of £60,000 each year.

   Cath has heard that she can elect to use the 'cash basis of accounting' to calculate her taxable trading profits but she is unsure whether this will affect:

   - when she will obtain tax relief for the cost of her plant and machinery, and
   - if a trade loss is made, what relief will be available for the trade loss.

   Compare how relief will be given for the cost of the plant and machinery and the options for relieving a trade loss if Cath elects to use the cash basis of accounting versus relief if no such election is made. (4)

10. Mahler Ltd sold an office building used in its trade in October 2019 for £500,000. The office had cost £175,000 in June 2002.

    In March 2020, Mahler Ltd purchased a fixed printing press for £450,000.

    Assuming any appropriate reliefs are claimed, calculate the chargeable gain for the year ended 30 April 2020 and show the effect of the claim on the base cost of the replacement asset. (4)

11. A farmer can value a production herd on the herd basis if he so elects.

    1) Define a production herd. (1)

    2) Explain how the cost, any replacements and the sale of mature animals are treated if an election for the herd basis is made. (2)

12. Scott is self-employed. He is about to move house and has contacted you to ask if he can shred some of his old tax files and records.

    Briefly explain:

    1) how long Scott should retain his tax records for; and

    2) the potential penalties for a failure to keep full and proper records.

    (2)

13. Hegarty Ltd prepares accounts to 30 September each year. On 1 July 2019 the company paid corporation tax of £65,000 being the full liability for the year ended 30 September 2018. The provision for corporation tax included in the 30 September 2018 accounts was £68,000.

    A provision of £72,000 is to be provided for the corporation tax in respect of the profits for the year ended 30 September 2019.

    Show how Hegarty Ltd would record the above transactions in the corporation tax ledger accounts ('T' accounts) for the year ended 30 September 2019. (3)

TEST "B"
ANSWERS

1.

	£
2018/19	
1 December 2018 – 5 April 2019	
4/6 x (18,000)	(12,000)
Therefore, taxable trading profits	Nil
2019/20	
1 December 2018 – 30 November 2019 (1st 12 months of trade)	
P/e 31 May 2019	(18,000)
1 June 2019 – 30 November 2019 = 6/12 x 108,000	54,000
Add: Losses allocated to 2018/19	12,000
Trading profits	48,000
2020/21	
Y/e 31 May 2020	108,000
Overlap profits:	
1 June 2019 – 30 November 2019	
6/12 x 108,000	54,000

2. Taxable supplies = 14,400 + 7,200 = £21,600 per month

Exceeds £85,000 threshold in month 4 (i.e. by 30 September 2019)

Notify HMRC by 30 October 2019

Registered from 1 November 2019

3.

Chocolate	: Standard rated
Local newspaper	: Zero-rated
Locally produced cakes	: Zero-rated
Postage stamps	: Exempt

VATA 1994, Sch 8 group 1 & group 3, Sch 9 group 3

4.

Y/e 31 October 2019	AIA @ 100%	General Pool	Special Rate Pool	Allowances
	£	£	£	£
Tax wdv b/f		15,000	966	
Additions:				
Machinery	200,000	580,000		
Air conditioning and heating	242,000			
	442,000	595,000		
AIA @ 100%	(442,000)			442,000
WDA @ 18%		(107,100)		107,100
WDA – balance on pool			(966)	966
Tax wdv c/f		487,900	Nil	
				550,066

Y/e 31 October 2019		£
1 November 2018 – 31 December 2018	2/12 x £200,000	33,333
1 January 2019 – 31 October 2019	10/12 x £1,000,000	833,333
Maximum AIA		866,666

However, the maximum AIA re expenditure incurred pre 1 January 2019 is £200,000.

5.

	Total	Others	Claire
	£	£	£
Y/e 30 June 2019	150,000		
1 July 2018 – 31 December 2018 6/12 x 150,000	75,000	75,000	
1 January 2019 – 30 June 2019			
6/12 x 150,000	75,000		
PSR 1:1:1	(75,000)	50,000	25,000
	Nil	125,000	25,000
Y/e 30 June 2020 (1:1:1)	180,000		
PSR 1:1:1	(180,000)	120,000	60,000
	Nil		

Claire 2018/19:	
Actual basis	
1 January 2019 – 5 April 2019 = 25,000 x 3/6	12,500
Claire 2019/20:	
1st 12 months of trade	
1 January 2019 – 31 December 2019 = 25,000 + (6/12 x 60,000)	55,000

Tutorial Note:

As the requirement only asked for Claire's taxable trading profit the approach used above will save you time – rather than work out the profit allocated to each of Andrew, Brad and Claire for each accounting period, you only need to work out the profits allocated to Claire for each accounting period.

These profits then need to be allocated to tax years using the opening year rules because Claire has joined the partnership.

6.

	£
Premium paid	10,000
Less: Capital element	
2% x £10,000 x (12 – 1)	(2,200)
Income element taxed on landlord	7,800
Alternative calculation:	
£10,000 x (50 – 11)/50	*7,800*
Annual deduction (£7,800 x 1/12)	650
Add back:	
Legal fees re new lease	925
Premium (£10,000 – £650)	9,350
	10,275

7. Due filing date is 31 July 2020

Correction Ltd can amend by 31 July 2021 (one year after the due filing date)

HMRC can amend by 4 April 2021 (nine months after the actual date of receipt)

8. Corporation tax accounting period = 1 September 2019 to 31 March 2020 (7 months)

	Amount payable	Due date
	£	
£945,000 x 3/7	405,000	14.3.20
£945,000 x 3/7	405,000	14.6.20
£945,000 x 1/7	135,000	14.7.20
	945,000	

9. If a cash basis election is made:

- Tax relief will be given for the £15,000 cost of the plant and machinery in the accounting period that the plant and machinery is paid for
- Trade losses can only be carried forward and set against future trading income from the same trade

If no cash basis election is made:

- Tax relief will be given in the form of capital allowances on the cost of the plant and machinery. 100% relief will be available for the £15,000 cost of plant and machinery in the period in which the expenditure is incurred by claiming the annual investment allowance at 100%.
- Trade losses can be relieved by:
  - Setting them against the net income of the loss making tax year and/or the previous tax year,
  - After a net income claim has been made some of the remaining loss may be set against chargeable gains of that same tax year,
  - A loss sustained in any of the first four tax years of a trade can be carried back against net income of the three preceding tax years, on a first in first out (FIFO) basis,
  - Carrying them forward against the first available future trading income from the same trade

10.

	£
Sale proceeds (October 2019)	500,000
Less: Cost (June 2002)	(175,000)
Unindexed gain	325,000
Less: Indexation on cost	
June 2002 to December 2017	
(278.1 – 176.2)/176.2 = 0.578 x 175,000	(101,150)
Gain on office building	223,850
Less: Rollover relief	(173,850)
Chargeable gain = Proceeds not reinvested	50,000
(£500,000 – £450,000)	

As the new asset is a depreciating asset, the deferred gain is 'frozen' and is not rolled over against the base cost of the new printing press.

The base cost of the printing press will remain at £450,000.

11. 'Production herd' means a collection of animals of the same species (irrespective of breed) kept by the farmer wholly or mainly for the products obtainable from the living animal which the animals produce for the farmer to sell.

The initial cost of the herd is not an allowable deduction, nor is the cost of any subsequent increase in herd size.

The selling price of the old animal is included as income and the cost of the replacement animal is deductible as an expense.

ITTOIA 2005 s.112(1c), s.114(1), s.115(1,2), s.116(2,4)

12.

1) Five years from the 31 January following the tax year to which the records relate;

2) Maximum £3,000 for each failure (can be mitigated by HMRC).

13.

Corporation tax creditor (B/S)

Bank	65,000	Balance b/d	68,000
CT charge – over provision in y/e 30.9.18	3,000	CT charge – y/e 30.9.19	72,000
Balance c/d	72,000		
	140,000		140,000
		Balance b/d	72,000

Corporation tax charge (P&L)

CT creditor – y/e 30.9.19	72,000	CT creditor - over provision y/e 30.9.18	3,000
		P&L	69,000
	72,000		72,000

Tutorial Note:

The tax charge in the profit and loss account of £69,000 is the charge for y/e 30.9.19 of £72,000 less the over provision of £3,000 for the y/e 30.9.18. The double entries in debit / credit format would have been:

	£	£
Dr Corporation tax creditor	*65,000*	
Cr Bank		*65,000*

To record the payment of the corporation tax liability for y/e 30 September 2018

Dr Corporation tax creditor	*3,000*	
Cr Corporation tax charge £(68,000-65,000)		*3,000*

To record the over provision for corporation tax made in the y/e 30 September 2018

Dr Corporation tax charge	*72,000*	
Cr Corporation tax creditor		*72,000*

To provide for the corporation tax liability for the y/e 30 September 2019

TEST "C"
(40 MARKS)

1. Mark's business as a gardener was not going well and he ceased trading on 30 November 2019. His results for relevant periods were as follows:

	Profit / loss
	£
Period ended 30 November 2019	(27,000)
Year ended 28 February 2019	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 2019. 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 2018 on 10 July 2019. An amended return was submitted on 3 October 2019.

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 2017/18 was £10,000. In January 2019 she made a claim to reduce her 2018/19 payments on account to £4,000 each which she paid on time.

She submitted her 2018/19 tax return on 31 March 2020 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 3.25% and work to the nearest month and pound. (4)

6. Gold Ltd changed its accounting date to 31 August 2019. In the 8 months to 31 August 2019 the following assets were purchased:

		£
1.2.19	Energy saving machinery	8,000
20.4.19	Machinery	600,000
30.7.19	Electric lighting and power system	90,000

The tax written down value on the main pool was £Nil at 1 January 2019.

Calculate the maximum capital allowances available to Gold Ltd for the period to 31 August 2019. (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 30 September 2016	42,000
Year ended 30 September 2017	36,000
Year ended 30 September 2018	41,000
Year ended 30 September 2019	39,000
Year ended 30 September 2020	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. (4)

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. In 1 August 2019 Norbert also received a bonus of £2,000.

   Calculate Norbert's primary Class 1 National Insurance Contributions for 2019/20. (2)

10. **Briefly explain how deficits on on-trading loan relationships, incurred on or after 1 April 2017, may be relieved.** (3)

11. Baxter Ltd has three employees during 2019/20.

    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 2019/20. (3)

12. **State the conditions that must be satisfied to ensure that a change of accounting date is effective for Income Tax purposes for a sole trader who has been trading for many years.** (2)

13. Angle Ltd's accounts showed a profit before tax of £900,000 for the year ended 31 May 2019. Depreciation charges were £12,000 and capital allowances of £20,000 were claimed.

    Show the accounting entries needed to record the Deferred Tax provision. (2)

TEST "C"
ANSWERS

1.

	£	£
2019/20		
6 April 2019 – 30 November 2019		
8/9 x (27,000)		(24,000)
Overlap profits		(4,000)
		(28,000)
2018/19		
1 December 2018 – 5 April 2019		
1 December 2018 – 28 February 2019 = 3/12 x 33,000	8,250	
1 March 2019 – 5 April 2019 = 1/9 x (27,000)	(3,000)	
	5,250	
Sub-total for 2018/19 = profit therefore take nil		Nil
Terminal loss		(28,000)

2. Post-cessation payments made in the seven years after permanently ceasing to trade are given relief by claiming a deduction against net income for the year in which the payment is made. *(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 *(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. Unutilised expenses will be wasted and may not receive any relief. *(ITTOIA 2005, s.254)*

Relief is only given for qualifying payments 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

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, i.e. by 31 January 2022 for relief in 2019/20.

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 individual's total adjusted income for the tax year if greater. Credit would also be available for a comment to this effect.

3.

- On acquisition of a source of income.
- On starting to trade.
- On becoming UK resident for CT purposes.
- Immediately after the end of the preceding accounting period.

CTA 2009, s.9

4. Filing date is 12 months after accounting period end, i.e. 30 June 2019.

Penalty for late return	£100
Latest date to open an enquiry (see note)	31 October 2020

Note: end of quarter following anniversary of amendment date.

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

5.

		£
1)	Late return penalty	100
2)	Penalty re late balancing payment (> 30 days late) = 3,500 x 5%	175
3)	Interest charges:	
	On underpaid first POA due 31.1.19 1,000 x 3.25% x 14/12	38
	On underpaid second POA due 31.7.19 1,000 x 3.25% x 8/12	22
	On late balancing payment due 31.1.20 1,500 x 3.25% x 2/12	8
	Total interest charges	68

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

Tutorial Note:

Judith should not have reduced her payments on account for 2018/19 because her income tax due for 2018/19 was more than that for 2017/18. Therefore, her payments on account for 2018/19 should each have been 50% x income tax due for 2017/18, being £5,000 each.

Since Judith has only made payments on account of £4,000 each, she will be charged interest on the underpayment of £1,000 for each payment on account between the relevant due date and the date it was paid.

6.

8 m/e 31 August 2019	FYA @ 100%	AIA @ 100%	Main Pool	CAs
	£	£	£	£
Energy saving machinery	8,000			
Lighting and power system		90,000		
Machinery		576,667	23,333	
	8,000	666,667	23,333	
FYA @ 100%	(8,000)			8,000
AIA @ 100%		(666,667)		666,667
WDA @ 18% x 8/12			(2,800)	2,800
TWDV c/f			20,533	
				677,467

Maximum AIA = 8/12 x 1,000,000
= 666,667

7. The basic tax point for a supply of goods is:

- If goods removed = time of removal
- If goods not removed = time when made available

The basic tax point for a supply of services is the time when the services are performed, i.e. completed.

The basic tax point is overridden where:

- An invoice is issued or payment is received before the basic tax point – the actual tax point is this earlier date

- An invoice is issued within 14 days after the basic tax point – the invoice date is the actual tax point

VATA 1994, s.6

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.

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

Profits of 2020/21 (y/e 30.9.20) are £28,000, so this is the lower amount

((28,000/39,500) x 100) = 70.9%

This is less than 75% so averaging is possible

The profit figure for each year is therefore £37,200 (i.e. £(42,000 + 36,000 + 41,000 + 39,000 + 28,000)/5).

The averaging claim must be made by 31 January 2023 (ie first anniversary of 31 January following the end of the last tax year).

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

9. Monthly salary £3,000

In August 2019 earnings are £5,000 (£3,000 salary + £2,000 bonus)

	£
<u>Class 1 primary NIC</u>	
For 11 months on salary only:	
(3,000 – 719) x 12% x 11	3,011
For August 2019:	
(4,167 – 719) x 12%	414
(5,000 – 4,167) x 2%	17
	3,442

10.

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

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

<u>Tutorial Note:</u>

The maximum amount of carried forward deficit (whenever incurred) which may be offset against profits of accounting periods beginning on or after 1 April 2017 is the lower of:

- *the unrelieved deficit;*
- *the deductions allowance of £5m per group or standalone company plus 50% of the company's unrelieved profits above that amount*

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

11.

Class 1 secondary NIC	£
Re Josh – under 21 and earnings below upper secondary threshold	Nil
Re Ravi: (2,400 – 719) x 13.8% x 12 months	2,784
Re Ceri: (4,000 – 719) x 13.8% x 12 months	5,433
	8,217
Less: Employment allowance	(3,000)
	5,217

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 NIC is 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.

- Accounts prepared for a period ≤ 18 months long.
- Notify HMRC by 31 January following the tax year of change.
- Either no accounting date change in previous five tax years or change must be made for bona fide commercial reasons.

ITTOIA 2005, s.217

13.

	£	£
Capital allowances	20,000	
Less: Depreciation charges	(12,000)	
Timing difference	8,000	
Deferred tax @ 19%	1,520	
Dr Deferred tax expense	1,520	
Cr Deferred tax provision		1,520

To record the increase in the deferred tax provision

TEST "D"
(40 MARKS)

1. Ben Smith commenced self-employment on 1 January 2019. The first set of accounts are for the 16 months to 30 April 2020 and accounts will be made up to 30 April each year thereafter.

   Show the basis periods of assessment for the years 2018/19 to 2021/22 inclusive. (4)

2. Margaret has trading losses in 2019/20 of £220,000. She has been trading for many years and in 2018/19 was assessed on trading profits of £75,000. She has taxable income from a substantial investment portfolio of £80,000 each year.

   Show the loss relief available for 2018/19 and 2019/20 and the amount of trading loss carried forward at 5 April 2020 assuming the maximum relief is claimed. (4)

3. Helen bought a new office unused from a developer on 1 October 2019 for use in her business. Construction had started on the office in December 2018.

   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 2019. 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 2020. (4)

4. Kenneth is a sole trader. He has traded since 1 January 2014 making up accounts to 31 December each year. He has decided to change his accounting date to 30 April and has provided you with an estimate of assessable profits as follows:

	£
12 Months to 31 December 2017	34,000
16 Months to 30 April 2019	45,000
12 Months to 30 April 2020	42,000

   There is overlap relief of £9,000 brought forward at 6 April 2018 relating to the period 1 January 2014 to 5 April 2014.

   Calculate the trading profits assessable for 2018/19 and 2019/20 and the overlap relief carried forward at 5 April 2020. (4)

5. Detour Travel Ltd has been trading since 1 April 2011 making up accounts to 31 March each year. In 2020 it changed its accounting date to 30 June and prepared accounts for the 15 month period to 30 June 2020. The company does not pay its tax by instalments.

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

6. Grenil Ltd has the following deductions shown in the accounts for the year to 31 December 2019:

   (a) Director's remuneration of £40,000, which includes a provision for a bonus of £10,000 to be paid in 2020.

   (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 2020.

   (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 2019/20 are £68,200.

   Calculate the National Insurance Contributions payable by Keyshia for 2019/20 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. The time of supply rules are used to determine on which VAT return tax is accounted for.

    Explain the rules for determining the time of supply for VAT purposes. (3)

11. **Briefly explain the rules for calculating and paying Employers' Class 1A National Insurance Contributions on benefits and expenses.** (2)

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

13. Bow Ltd made taxable total profits of £940,500 in the year ended 31 October 2019. The only tax adjustments were capital allowances of £360,800 and depreciation of £260,400.

    Calculate the movement on the company's provision for deferred tax and show the journal entry to record this movement in the deferred tax provision. Assume a rate of corporation tax of 19% throughout. (2)

TEST "D"
ANSWERS

1.

2018/19	1 January 2019 to 5 April 2019 (Actual basis)
2019/20	6 April 2019 to 5 April 2020 (Actual basis)
2020/21	1 May 2019 to 30 April 2020 (12 months to AP end)
2021/22	Y/e 30 April 2021

2.

2019/20	£
Trade income	Nil
Other income	80,000
	80,000
s.64 ITA 2007 loss relief against non-trade income = greater of:	
- £50,000; and	(50,000)
- 25% x £80,000 = £20,000	
Net income	30,000
2018/19	
Trade income	75,000
Other income	80,000
	155,000
s.64 ITA 2007 loss relief against same trade income	(75,000)
s.64 ITA 2007 loss relief against non-trade income = greater of:	
- £50,000; and	(50,000)
- 25% x £155,000 = £38,750	
Net income	30,000
Loss memo:	
Losses	220,000
2019/20	(50,000)
2018/19 (75,000 + 50,000)	(125,000)
Carried forward	45,000

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, and

   – the first use of the office is non-residential.

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

   Relief is given at 2% per annum on cost from the date the office is first brought into business use rather than the date the office is bought, ie from 1 November 2019.

   <u>Y/e 31 January 2020</u>

   SBA = £250,000 x 2% x 3/12 = <u>£1,250</u>

4.

2018/19	12 months to 30.4.18:	£
	4 months ended 30.4.18 (4/16 x £45,000)	11,250
	8 months to 31.12.17 (8/12 x £34,000)	<u>22,667</u>
		<u>33,917</u>
2019/20	12 months to 30.4.19 (12/16 x £45,000)	<u>33,750</u>
Overlap relief carried forward	9,000 + 22,667	<u>31,667</u>

<u>Tutorial Note:</u>

1. *Tax year of change is earlier of*
   - no old AP end = 31 December 2018 → 2018/19
   - 1st new AP end = 30 April 2019 → 2019/20 ∴2018/19

2. *Either side of 2018/19 tax 12 months to AP end*
   2017/18 = y/e 31 December 2017
   2019/20 = y/e 30 April 2019

3. *Taxable profits 2018/19 = 'Gap' = 1 January 2018 – 30 April 2018 (4 months) so make 12 months by taxing a further 8 months 1 May 2017 to 31 December 2017 and create further overlap profits*

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 2020 and,
- the second for the remaining three months to 30 June 2020.

The filing date for both returns is 12 months from the end of the period of account – so 30 June 2021.

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

- 1 January 2021 for the 12 months to 31 March 2020, and
- 1 April 2021 for the three months to 30 June 2020.

6.

a) Director's remuneration is allowed as a deduction from profits as being wholly and exclusively for the purposes of the trade. 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.

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

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

7.

Class 2 NIC	£
52 x £3.00	156
Class 4 NIC	
(50,000 – 8,632) x 9%	3,723
(68,200 – 50,000) x 2%	364
Total Class 4 NIC payable	4,087

Class 2 NIC is payable as part of the balancing payment for the tax year, on 31 January 2021.

Class 4 NICs are payable in the same way as income tax under self-assessment – payments on account are due on 31 January 2020 and 31 July 2020 (each payment on account being 50% of the liability for 2018/19) and a balancing payment is due on 31 January 2021.

8. <u>Assets subject to capital gains tax include:</u> *[Only two required]*

   Stocks and shares

   Land and property

   Chattels where proceeds exceed £6,000

   <u>Assets exempt from capital gain tax include:</u> *[Only two required]*

   Cars

   Wasting chattels (unless qualifying for capital allowances)

   Compensation for personal wrong or injury

   Residence – an individual's only or main residence

   [Credit given for any other suitable examples]

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.

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

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

   Compulsory de-registration is also required when a business changes status.

10. The basic time of supply (tax point) is the date the goods are made available or the services are performed.

    This is replaced by the:

    - date of invoice, or
    - date of payment

    if earlier.

    However, if goods or services are invoiced within 14 days of the basic tax point the invoice date replaces the basic tax point unless the date of payment has already established a tax point.

    VATA 1994 s.6

11. Class 1A NIC are payable in respect of the cash equivalent of taxable benefits provided to employees and directors.

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

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.

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.

Right of substitution and engagement of helpers

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.

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.
Credit also given for 'Degree of integration' and 'Right to terminate contract'.
ES/FS1 on page 1475 of Yellow Part 2b of 2019-20 is helpful here.]

13.

Deferred Tax

	£
Capital allowances	360,800
Less: Depreciation	(260,400)
Timing difference	100,400
Deferred tax x 19%	19,076

To increase the deferred tax provision the double entry will be:

	£	£
Dr Deferred tax charge (P&L a/c)	19,076	
Cr Deferred tax provision (BS liability)		19,076

PAPER 2
LONG QUESTIONS

1. Brian Duckham left his employment on 5 April 2019 and commenced trading as a self-employed plumber on 1 May 2019. His first set of accounts cover the 17-month period ended 30 September 2020.

   His tax adjusted trading profits for the 17 months ended 30 September 2020 are expected to be £42,698.

   Brian has no other sources of income and he has not completed a self assessment tax return before.

   Brian has contacted you to ask for some advice in respect of his self-employment.

   You are required to prepare a letter to Brian as his tax adviser covering the following issues:

   1) What notification HMRC require of his self-employment. (2)

   2) Tax return filing requirements. (2)

   3) His assessable profits for 2019/20 and 2020/21. (3)

   4) Any overlap profits created in the opening years and when they could be utilised in the future. (2)

   5) His tax and National Insurance liabilities for 2019/20. (2)

   6) The due dates for payment of tax and NIC as a sole trader. (4)

   Total (15)

2. James is self-employed as a landscape gardener. You are provided with the following accounts for the year ended 31 March 2020.

Profit and Loss Account	£	£
Sales		92,000
Less: Purchases		(29,000)
Gross Profit		63,000
Expenses:		
Wages	5,110	
Utility costs re use of home for business purposes	98	
Motor expenses	2,000	
Repairs and renewals	780	
Insurance	345	
Telephone	146	
Advertising	275	
Accountancy	375	
Legal costs	450	
Subscriptions	180	
Depreciation	5,467	
		(15,226)
		47,774
Bank interest received		47
Net Profit		47,821

You have the following information:

James has recently heard about flat rate expenses and has decided that he would like to claim these where possible. James spent an average of 30 hours a month working from home during the year preparing garden designs for clients and doing his paperwork. The rest of the time was spent at his client's premises.

The motor expenses relate to the running costs of a van which James uses solely for business purposes. James bought the van during 2018 and has already claimed capital allowances on the cost of the van. James drove 11,000 business miles in the van during the year.

The balance on the general pool brought forward for capital allowance purposes was £12,380. During the year James purchased a lawnmower costing £560 which he used for both customers and his own garden. He estimated that the business use was 80%.

The bank interest represents the amount received in respect of James's bank account during the year.

Subscriptions include £100 in respect of his annual membership of a golf club, where James takes customers to entertain them.

Legal costs relate to the purchase of a workshop which had not been finalised by the year end.

During the year James used plants with a sales value of £150 for his own garden, these were included in purchases at £75.

In January and July 2020, James made payments on account totalling £11,000.

You are required to calculate James' total liability for 2019/20 for Income Tax and National Insurance purposes, assuming no other income or outgoings during the year. Calculate the tax payments due in 2021 and state the due dates. (12)

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, have traditionally drawn up their accounts to 31 December but this is their busiest time of year making it difficult to carry out a detailed stock-take. They therefore changed their accounting date to 31 March drawing up accounts for a 15 month period to 31 March 2020.

The results for the 15-month period to 31 March 2020 are as follows:

	£
Turnover	2,450,000
Direct costs of sale	(1,750,000)
Rental income	50,000
	750,000
Administration expenses	(208,266)
Overhead expenses	(120,450)
Net profit	421,284

The profit sharing ratios for the period are:

Alan 50%: Brenda 12.5%: Simon 37.5%

The partners took meat with a total retail value of £300 from the business at Christmas 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 £19,157. 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 £9,157 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
Depreciation	3,500

The car has CO_2 emissions of 135g/km and it is used 60% for business. The lease was entered into by the partnership on 1 May 2018.

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, CO_2 emissions 128g/km (2.6.19)	10,000
New computer system including software above (19.10.19)	9,600
Mincing machine (17.12.19)	8,000

The tax written down value of the main pool at 1 January 2019 was £95,280.

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

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

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

You are required to:

1) **Calculate the adjusted trading profit for the partnership for the period ended 31 March 2020.** (12)

2) **Allocate the trading profit between the partners and show each partner's taxable trading profit for 2019/20.** (3)

Total (15)

4. Ray Biggs commenced trading on 6 April 2018. For the year ended 5 April 2019 he had adjusted trading profits of £10,000. During the following year he borrowed a substantial sum of money to invest in the latest technology for use in the business. Due to high interest charges and capital allowances, he has an adjusted loss for 2019/20 of £70,000, but anticipates profits of £40,000 for 2020/21.

For the three years prior to the commencement of trading, he was employed earning £55,000 per annum. He also has taxable property income of £5,000 each year.

Ray has been told by a friend that he can set his losses against his other income and receive a tax repayment. However, he had assumed that the losses would be set against his current year's income and therefore has not budgeted for paying any tax. He is now wondering whether he would be better off obtaining a tax repayment and has asked you to advise him on the options available to him.

You are required to draft a letter to Ray explaining the options available to him in respect of obtaining loss relief. You should consider the cash flow advantages/disadvantages of each option as well as the amount saved. (12)

5. Emily Tuesday is a director of a family trading company, Tuesday Trading Ltd. She works full time for the company and owns 25% of the share capital.

A close friend is interested in becoming involved with the company and has made two offers. The first is that they would agree a binding contract to trade on favourable terms with Tuesday Trading Ltd. The other is an offer to buy Emily's shares and those of her father, who does not work for the company, so that the friend would obtain control of the company.

Emily is concerned that any trading relationship may eventually be detrimental to Tuesday Trading Ltd and she is being encouraged by her father to consider the sale of the shares. Emily has owned the shares for four years and is likely to make a gain of £150,000 if she were to sell.

You are required to write a letter to Emily, in which you should:

1) **Briefly explain Emily's statutory duties as a director regarding the proposed trading contract.** (5)

2) **Explain the Capital Gains Tax implications of the sale of the shares and, in particular, the availability of entrepreneurs' relief on any disposal by Emily and her father. No calculations are required.** (5)

Total (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 2019/20.

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 December 2019. The car was acquired in June 2016 and has CO_2 emissions of 145g/km. The tax written down value of the car at 1 January 2019 was £5,400. She would like to claim flat rate expenses in respect of the business use of the car for 2019/20 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 135g/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 January 2021.

You are required to draft a letter to Poppy:

1) **Explaining whether or not she can claim a flat rate expense in respect of the car for 2019/20 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;** (4)

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 December 2021, assuming 2019/20 rates and allowances continue to apply. (9)

Total (15)

7. You have received the following note from the partner in your office regarding Westscope Ltd, a company which produces specialist printing paper.

"I have a meeting with the FD of Westscope Ltd in a week's time to discuss the Corporation Tax payable for year ended 28 February 2020.

Please prepare corporate tax calculations. Attached are the relevant details for you to calculate this."

	£	£
Gross profit from trading		1,600,410
Investment income (note 1)		28,000
Less:		1,628,410
Salaries	95,000	
Depreciation (note 2)	87,000	
Lighting and heating	8,000	
Professional fees (note 3)	14,500	
Audit and accountancy	8,500	
Bad debts (including specific provision increase of £2,800)	9,500	
Repairs (note 4)	17,500	
Interest payable on trading loans	32,000	
Entertaining customers	8,300	
Motor expenses (note 5)	8,700	
Loss on sale of assets	11,000	
		(300,000)
Profit before taxation		1,328,410

Notes:

1) Investment income

	£
Interest on bank deposit account	19,600
Rental income (£700 per month payable monthly)	8,400
	28,000

2) Depreciation

Included within the total depreciation charge is £6,000 relating to the depreciation of plant and machinery held under a finance lease contract.

3) Professional fees

	£
Staff recruitment costs	5,700
Legal fees re purchase of warehouse (see note 5)	1,200
Rent collection costs	570
Debt recovery costs	7,030
	14,500

4) Repairs

	£
New office	15,000
Sundry repairs and renewals	2,500
	17,500

5) Fixed assets

The capital allowance pool balances at 1 March 2019 were:

	£
General pool	125,000
Short life asset (acquired in Sept 2017)	22,860

During the period the following acquisitions and disposals took place:

June 2019

An operating lease was entered into for a new Honda Accord with CO_2 emissions of 152 g/km. The lease payments charged to the P&L account (within motor expenses) in the period amounted to £7,200.

October 2019

The short life asset, which originally cost £34,000, was sold for £17,000.

November 2019

A new lorry and delivery vans were purchased for £864,500.

December 2019

A newly built warehouse was purchased from a developer. Westscope Ltd paid the developer £380,000 for the warehouse (which included £120,000 for the cost of the land). The company started using the warehouse in their trade on 1 January 2020.

January 2020

New paper rolling machine with a cost of £140,000 (expected useful life 15 years).

February 2020

An old paper guillotine was scrapped for proceeds of £1,200.

You also note from the files that Westscope Ltd has one wholly owned subsidiary, which incurred no capital expenditure in the year ended 28 February 2020.

You are required to calculate the Corporation Tax payable by Westscope Ltd for the year ended 28 February 2020 and state the date the tax is payable.

(14)

8. Hatnut Ltd has been trading for many years making accounts to 31 August each year. In 2019 it changed its accounting date to 31 December. Its accounts for the 16 months ended 31 December 2019 show the following:

	£
Trading profit	400,000
Rental income This was received in respect of a new tenant for the period 1 November 2018 to 31 December 2019	14,000
Bank interest receivable	200
Chargeable gain on sale of property sold 1 November 2019	14,000
Dividends received 16 February 2019	20,000
Cash donation to charity paid 1 April 2019	(12,000)

Hatnut Ltd has not claimed any capital allowances in the 16 months ended 31 December 2019 and it has no related 51% group companies.

Although Hatnut Ltd has made a profit for the period to 31 December 2019, 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 2020.

You are required to:

1) **Calculate the Corporation Tax payable for the 16 months ended 31 December 2019.** (6)

2) **State the due dates for submission of the Corporation Tax returns 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.** (4)

4) **Explain all the possible options available to Hatnut Ltd for relieving the anticipated trading loss of the year ended 31 December 2020.** (4)

Total (16)

9. Metropolis Ltd has been trading for many years drawing accounts to 31 December and has never previously paid tax by instalments. It decided to move its year end to 31 March. The profit and loss account for the period 1 January 2019 to 31 March 2020 is as below:

	£
Sales	998,000
Less: Cost of goods sold	(126,000)
	872,000
Bank interest	28,000
Profit on sale of shares (1)	75,000
Dividends received (2)	27,000
Gross profit	1,002,000
Operating expenses (3)	(120,000)
Depreciation	(30,000)
Professional fees (4)	(2,550)
Interest payable (5)	(20,000)
Net profit	829,450

Notes to accounts:

1) 5,000 shares (a 0.1% holding) in Sydney plc were sold on 28 February 2020 for £95,000. They had cost £20,000 on 16 March 2004.

2) A dividend of £27,000 was received on the Sydney plc shares on 7 December 2019.

3) Operating expenses are made up as follows:

	£
Business entertaining	13,400
Bad debts written off	8,000
Moveable partitions for open-plan office (12.4.19)	9,600
Salaries and NIC	68,000
Office expenses	21,000
	120,000

4) Professional fees are made up as follows:

	£
Audit and accountancy	1,200
Legal fees re employee contracts	800
Legal fees re sale of Sydney plc shares	550
	2,550

5) The interest was paid quarterly on £320,000 5% debenture stock acquired by Mr Dublin on 1 January 2013. The company used the funds to acquire trading stock.

The tax written down value of the general pool at 1 January 2019 was £120,000.

Metropolis Ltd is solely owned by Mr London. Mr London also owns all of the share capital of Altstadt GmbH, a company based in Germany.

You are required to:

1) Calculate the corporation tax payable by Metropolis Ltd in respect of the period ended 31 March 2020, clearly showing the due date(s) for payment. (14)

2) Show the due dates for delivery of the forms CT600. (1)

Total (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 2020 and will prepare his first business accounts for the year ending 30 June 2021 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.

You are required to 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 Financial Year 2019 rates and the VAT registration limit at 1 April 2019 continue to apply in future years.

ANSWERS TO LONG QUESTIONS

1. BRIAN DUCKHAM

Our address

Your address

Date

Dear Brian,

As a self-employed individual you have a number of obligations which I will deal with below.

Notification

An individual should notify HMRC that they are self-employed for income tax purposes within six months from the end of the tax year in which trade started. You started to trade in the tax year 2019/20, therefore you must notify HMRC by 5 October 2020.

Failure to notify HMRC of your self-employment by 31 January following the end of the tax year in which you start to trade, i.e. by 31 January 2021 in your case, can lead to penalties.

Filing of Tax Returns

The return covering your self-employed earnings should be filed by 31 January following the tax year if you intend to file online (i.e. by 31 January 2021 for your 2019/20 return) or three months from the issue of the return if this is later.

If you wish to file a paper return the due date is 31 October following the end of the tax year (i.e. by 31 October 2020 for your 2019/20 return) or three months from the issue of the return if this is later.

Income Tax and National Insurance

Based upon the information supplied by you, I estimate that you will have the following taxable income for 2019/20 and 2020/21:

Taxable trading profits (Appendix 1)

2019/20 Trade profits	£27,628
2020/21 Trade profits	£30,140

In arriving at these two taxable income figures, I have used the rules for determining the profits of a business in its early years. These rules have resulted in the profits for the period 1 October 2019 to 5 April 2020 being taxed both in 2019/20 and 2020/21, i.e. effectively profits of £15,070 (see Appendix 2) have been taxed twice.

These are known as overlap profits and relief is given on a change of accounting date or on the cessation of the business. For instance, if the business ceases in the future then the taxable trading profits in the final tax year of trade is reduced by this overlap profit.

Your Income Tax liability for 2019/20 is £3,026 (see Appendix 3).

Your National Insurance liability for 2019/20 is £1,854 (see Appendix 4).

Generally, Income Tax and Class 4 NIC are due for payment in three instalments as follows:

1st Payment on account (POA)	31 January in the tax year
2nd POA	31 July following the tax year
Balancing payment	31 January following the tax year

Each payment on account is 50% of the previous year's Income Tax and Class 4 NIC due. The Income Tax due is after the deduction of any tax collected at source.

Class 2 NICs are due for payment as part of the balancing payment for the tax year.

As your tax due for 2018/19 would have been collected at source resulting in no outstanding tax due, the tax and NIC due for 2019/20 (i.e. your first tax year of trade) will be due for payment in full on 31 January 2021.

Payments on account are not required where the total income tax and Class 4 NIC due for the previous tax year does not exceed £1,000.

I hope this is useful.

Yours sincerely,

T Adviser

APPENDICES

1) Assessable profits

For the 17 months ended 30 September 2020 the tax adjusted profits are expected to be £42,698. Taxable profits:

2019/20	1 May 2019 to 5 April 2020 (Actual basis = 11 months) = 11/17 x £42,698 = £27,628
2020/21	1 October 2019 to 30 September 2020 (12 months to AP end) = 12/17 x £42,698 = £30,140

2) Overlap profits

Overlap period = 1 October 2019 to 5 April 2020 = 6 months
Overlap profit = 6/17 x £42,698 = £15,070

3) Income Tax Liability for 2019/20

	£
Trading profit	27,628
Less: PA	(12,500)
Taxable income	15,128
IT liability:	
15,128 @ 20%	3,026

4) National Insurance Contributions 2019/20

		£
Class 2 contributions	48 weeks at £3.00 per week	144
Class 4 contributions	(27,628 – 8,632) x 9%	1,710
		1,854

2. JAMES

Y/e 31 March 2020

	£
Net profit per accounts	47,821
Add:	
Use of home for business purposes *(as flat rate expenses claimed)*	98
Depreciation	5,467
Subscription re: golf club	100
Legal costs re: workshop	450
Selling price of plants for own use	150
Less:	
Flat rate expenses for business use of home (£10 x 12 months)	(120)
Bank interest received	(47)
Tax adjusted profits before capital allowances	53,919
Less: Capital allowances on plant and machinery (W)	(2,676)
Tax adjusted profits for year	51,243
2019/20	
CYB y/e 31 March 2020	51,243

Tutorial Note:

It is not possible to claim flat rate expenses for the business mileage in the van because James has already claimed capital allowances on the cost of the van. Therefore, relief must be given for the actual business motor expenses incurred in the van.

Add back the selling price of the plants taken out of the business by James. These are drawings but James has not yet accounted for the drawings in the accounts.

Working

Capital Allowances

Y/e 31 March 2020	AIA @ 100%	General Pool		CAs
	£	£		£
Tax wdv b/f		12,380		
Additions:				
Lawnmower	560			
AIA @ 100%	(560)		x 80%	448
WDA @ 18%		(2,228)		2,228
Tax wdv c/f		10,152		2,676

Tutorial Note:

Lawnmower only used 80% in business, therefore amount of capital allowances claimed reduced to 80% x £560.

Income tax computation 2019/20

	Non-Savings	Interest
	£	£
Trading income	51,243	
Bank interest		47
Net income	51,243	47
Less: Personal allowance	(12,500)	
Taxable income	38,743	47

Tax:	
37,500 x 20%	7,500
1,243 x 40%	497
38,743	
47 x 0%	0
IT liability	7,997

Class 2 NIC:

£3.00 x 52	156

Class 4 NIC:

(50,000 – 8,632) x 9%	3,723
(51,243 – 50,000) x 2%	25
	3,748

	£	
Income Tax payable	7,997	
Class 2 NIC	156	
Class 4 NIC	3,748	
Total tax due 2019/20	11,901	
Less: POAs (given)	(11,000)	
Balance of tax payable	901	due 31 January 2021

POAs for 2020/21:

= 50% x total Income Tax and Class 4 NIC due for 2019/20

= 50% x 11,745 (11,901 – 156)

= 5,873 Payable on 31 January 2021 and 31 July 2021

3. THE POPPLE PARTNERSHIP

1) Adjusted Trading Profit for 15 months ended 31 March 2020

	£
Net profit per accounts	421,284
Add:	
Goods for own use	300
Entertaining (N1)	19,157
Depreciation	10,550
Leasing costs (N2)	2,450
Petrol – Alan (£850 x 40% private use)	340
Fine	5,000
Computer software (N3)	1,800
Less:	
Capital allowances (N4)	(39,838)
Rental income	(50,000)
Tax adjusted profit for 15 m/e 31 March 2020	371,043

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.

Notes

N1) As the greater % of golf day relates to client entertaining, total cost disallowed.

N2) The add back is arrived at as follows:

			£
Total charge	-	Finance lease interest expense	1,500
	-	Depreciation	3,500
			5,000

Allowable £5,000 x 85% (re CO_2) x 60% (business use)	2,550
Therefore, add back (£5,000 – £2,550)	2,450

N3) As was purchased with the computer system and useful life > 2 yrs, it is disallowed and CAs claimed as part of the capital cost - 100% AIA available.

N4) Capital allowances

15 months to 31 March 2020	AIA @ 100%	Main pool	Special rate pool	CAs
	£	£	£	£
Tax wdv b/f		95,280		
Additions:				
Car for employee – CO_2 > 110g/km			10,000	
Computer & software	9,600			
Mincing machine	8,000			
	17,600	95,280	10,000	
AIA @ 100%	(17,600)			17,600
WDA @ 18% x 15/12		(21,438)		21,438
WDA @ (8%x3/12) + (6%x12/12) = 8%			(800)	800
Tax wdv c/f	Nil	73,842	9,200	39,838

Tutorial Notes:

Where it is obvious that the additions will be covered by the AIA, as in this question, there is no need to show a working to calculate the maximum AIA.

The rate for special rate pool is 6% per annum from 6 April 2019 and 8% per annum prior to 6 April 2019. A hybrid rate of 8% is applicable for this 15 month accounting period.

2) Allocation of profit

	Total	Alan	Brenda	Simon
	£	£	£	£
Taxable profit 15 m/e 31.3.20	371,043			
PSR: 50%: 12.5%: 37.5%	(371,043)	185,522	46,380	139,141
	Nil			

	Alan	Brenda	Simon
Taxable profit 15 m/e 31.3.20	185,222	46,380	139,141
Less: overlap relief (W)	(100,000)	(15,000)	(42,500)
Trading profit 2019/20	85,222	31,380	96,641

Working

The partnership used to prepare accounts to 31 December. This means that the overlap profits must relate to three months that have been taxed twice (1 January to 5 April = three months).

Tax year of change is earlier of:

- No old AP end = 31 December 2019 = 2019/20
- 1st new AP end = 31 March 2020 = 2019/20

2019/20 is the tax year of change

2018/19 = CYB = year ended 31 December 2018
2020/21 = CYB = year ended 31 March 2021

Therefore in 2019/20:
= 15 months 1 January 2019 to 31 March 2020 less three months of overlap relief

Tutorial Note:

If the accounting date moves to 31 March, relief will always be given for all unrelieved overlap profits.

The requirement did not ask for the allocation of the rental income between the partners, but if it had, the rental income is split between the partners using the profit sharing ratio as shown below.

	Total	*Alan*	*Brenda*	*Simon*
	£	*£*	*£*	*£*
Rental income 15 m/e 31.3.20	*50,000*			
PSR: 50%: 12.5%: 37.5%	*(50,000)*	*25,000*	*6,250*	*18,750*
	Nil			

Overlap relief would be available to reduce these amounts of taxable rental income.

4. RAY BIGGS

Our address

Your address

Date

Dear Ray

As requested, I have outlined below the options for utilising your trading loss of 2019/20.

Carry forward of trading losses

If no claims are made then the trading loss of 2019/20 will automatically be carried forward and set against the first available trading profits from the same trade.

This would mean that your trading profits for 2020/21 would be reduced to nil leaving £30,000 of loss to be carried forward to 2021/22.

Your property income would be covered by your personal allowance which means that you will have no taxable income in either 2019/20 (year of loss) or 2020/21.

It is therefore likely that you will have no income tax to pay until 31 January 2023 (being the tax for 2021/22), since no payments on account will be required for 2020/21 or 2021/22.

The disadvantage of this option is that if you ceased trading without having utilised these trading losses it is possible that relief would be lost.

Set loss against net income

It is possible to claim to set the trading loss against your net income for 2019/20 (year of loss) and/ or 2018/19 (preceding year).

There would be no benefit in making a claim in 2019/20 since the only income is property income of £5,000 which is already covered by the personal allowance.

A claim to set the loss against net income in 2018/19 would use losses of £15,000. This would however waste the personal allowance.

Set loss against net income of three preceding tax years

It is possible to claim to set a trading loss incurred in any of the first four tax years of trade against the net income in the three preceding tax years. The net income of the earliest year is relieved first.

It is not possible to restrict the loss claim to a particular tax year. The claim is to set the loss against the net income of all three preceding tax years provided there is enough loss to do so.

However, 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 income which is not trading income are one of the reliefs subject to this overall restriction.

Therefore, the maximum loss relief available to you against your net income in 2016/17 would be £50,000 being the greater of:

- £50,000, and
- 25% x £60,000 (adjusted total income for 2016/17).

In your case the net income of 2016/17 would be reduced to £10,000 (which would be covered by the personal allowance) and the net income of 2017/18 would be reduced to £40,000. Since all the loss would be used up the net income of 2018/19 would remain unchanged.

This would result in a tax repayment for 2016/17 and 2017/18. However, there would be no trading losses left to set against the trading profits in 2020/21, hence a substantial tax liability would be due for payment on 31 January 2022. Payments on account would also be due for 2021/22.

The claims to set the trading loss against net income must be made on or before the first anniversary of 31 January following the tax year in which the loss arose. In your case these loss relief claims must be made by 31 January 2022.

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

Yours sincerely,

Tax Adviser

<u>Tutorial Note:</u>

You may find it helpful to set up a working showing the net income in each tax year to help you answer a question like this.

				Trade started	*Trade loss (70,000)*	
	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*	*2020/21*
	£	*£*	*£*	*£*	*£*	*£*
Employment income	*55,000*	*55,000*	*55,000*			
Trading income				*10,000*	*Nil*	*40,000*
Property income	*5,000*	*5,000*	*5,000*	*5,000*	*5,000*	*5,000*
Net income	*60,000*	*60,000*	*60,000*	*15,000*	*5,000*	*45,000*

5. EMILY TUESDAY

Our address

Your address

Date

Dear Emily,

<u>Duties re Proposed Contract</u>

Further to our conversation today, I understand that you are worried that you may be placed in a position where you will breach your duty as a director to the company.

Directors' statutory duties are set out in the Companies Act 2006.

You need to check the constitution of the company to ensure that a contract such as this is not prohibited by it.

Any proposed contract should be for the benefit and success of the company and not your friend.

You should not sign any contract without exercising reasonable care, skill and diligence.

You should not accept any personal benefit through the arrangement if you agree to a trading contract with your friend.

You should declare an interest in the proposed transaction to the other board members, this will avoid a conflict of interest in relation to the trading contract.

Chapter 18 of the Fifth Edition Law book – pages 333-334

<u>CGT Implications of Sale of Shares</u>

You were also concerned that if you were to sell your shares, you may have a substantial liability to capital gains tax.

When you sell any shares in the company, a gain will be calculated based on sale proceeds less cost of acquisition.

A claim for entrepreneurs' relief will result in the gain (after deduction of any available losses and the available annual exempt amount) being taxed at the rate of 10%, regardless of your level of income.

To qualify for entrepreneurs' relief you have to meet the relevant qualifying conditions throughout a period of two years. This period ends with the date on which you dispose of a qualifying asset.

Shares will qualify for relief if you hold at least 5% of the ordinary share capital and that holding gives you at least 5% of the voting rights in the company.

In addition, the shareholder must either be entitled to at least 5% of the distributable profits and 5% of the assets available on a winding up and/or be entitled to at least 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company.

As an addendum to the above points, the company must be a 'trading company', and you must be either an officer or employee of that company.

It would appear that you meet these criteria.

However, as your father does not work for the company, it would appear that his gain would not qualify for entrepreneurs' relief.

Please let me know if you have any further queries.

Yours sincerely,

Tax Adviser

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 2019/20 in respect of your current car because you have already claimed capital allowances on this car. A flat rate expense cannot be claimed where capital allowances have been claimed in respect of a vehicle.

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

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 in respect of household running costs for utilities such as gas and electricity instead of claiming the actual business proportion of these expenses.

Claiming this flat rate expense does not prevent a separate deduction being available for fixed costs 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.

The amount of the flat rate expense depends on the number of hours worked in the home each month. 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.

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.

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. Instead you can choose to either claim relief via:

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

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.

The amount of the flat rate expense is based on the business mileage driven during the period. 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.

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).

If flat rate expenses are not claimed, you can claim capital allowances in respect of the car. As the car has CO_2 emissions of more than 110g/km, the rate of writing down allowance available would be 6%, with relief restricted in respect of private use.

The amount available to deduct from profits in the year ended 31 December 2021 would be £20,000 x 6% = £1,200 x 70% business use = £840.

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%).

<u>Van</u>

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

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

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.

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 December 2021.

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

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

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.

Yours sincerely,

Tax Adviser

7. WESTSCOPE LIMITED

Corporation tax computation for Y/e 28 February 2020

	£
Trade profit (W1)	388,739
Non-trading profits (LR)	19,600
UK property business (8,400 – 570)	7,830
TTP	416,169
CT liability:	
416,169 x 19%	79,072
Large company threshold	
– 1 related 51% group company (1,500,000 / 2)	750,000
TTP = Augmented profits	416,169
Quarterly instalments	No
Due date for payment of tax	1 December 2020

Workings

W1) Adjustment to profits:

	£	£
Profit before tax		1,328,410
Add back:		
Depreciation (87,000 – 6,000)	81,000	
Customer entertaining	8,300	
Loss on sale of assets	11,000	
Legal fees re abortive property purchase	1,200	
Rent collection (Property income deduction)	570	
New office	15,000	
Lease costs of Honda (7,200 x 15%)	1,080	
		118,150
Less:		
Investment income	(28,000)	
Capital allowances (W2)	(1,028,954)	
SBA (W3)	(867)	
		(1,057,821)
Trade Profit		388,739

W2) Capital allowances on P&M

Y/e 28 February 2020	AIA @ 100%	General Pool	Short life asset	CAs
	£	£	£	£
Tax wdv b/f		125,000	22,860	
Additions:				
Lorry and delivery vans	864,500			
Rolling Machine	135,500	4,500		
Disposals:				
Guillotine		(1,200)		
Short life asset			(17,000)	
	1,000,000	128,300		
Balancing allowance			5,860	5,860
AIA @ 100%	(1,000,000)			1,000,000
WDA @ 18%		(23,094)		23,094
Tax wdv c/f		105,206		1,028,954

Maximum AIA = 1,000,000

The expenditure on the rolling machine which is not covered by the AIA is taken to the general pool since the rolling machine is not a long life asset (the useful life is below 25 years).

W3) Structures and buildings allowance on warehouse

Qualifying expenditure = £380,000 - £120,000
= £260,000

SBA = 2% x £260,000 x 2/12
= £867

Tutorial Note:

The SBA is not available on the legal fees paid to buy the warehouse or the cost of the land.

The SBA is available from 1 January 2020, when the warehouse is first used for business purposes.

8. HATNUT LTD

1) Corporation Tax Payable

	Y/e 31 August 2019	4 m/e 31 Dec 2019
	£	£
Trading profit (400,000 x 12/16 : 4/16)	300,000	100,000
Interest receivable (200 x 12/16 : 4/16)	150	50
Rental income (14,000 x 10/14 : 4/14)	10,000	4,000
Chargeable gain		14,000
Qualifying charitable donations	(12,000)	-
Taxable total profits	298,150	118,050

CT liabilities:

Y/e 31 August 2019

298,150 x 19%	56,649

4 m/e 31 December 2019

118,050 x 19%	22,430

Tutorial Note:

It is the adjusted trading profits before capital allowances which are time apportioned between the two corporation tax accounting periods and then capital allowances are calculated separately per corporation tax accounting period. However, in this question Hatnut Ltd has not claimed any capital allowances so the trading profit figure is the figure to be time apportioned.

2)

Due date for filing

Both returns should be filed online by 31 December 2020.

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

	Y/e 31 August 2019	4 m/e 31 Dec 2019
	£	£
Large company threshold	1,500,000	500,000
Taxable total profits	298,150	118,050
Dividends received	20,000	N/A
Augmented profits	318,150	118,050
Quarterly instalments	No	No

Due date for payment

Year ended 31 August 2019	1 June 2020
4 months ended 31 December 2019	1 October 2020

3) <u>Records</u>

Companies must keep all records used in making and delivering a correct tax return.

The records must include records of:

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

The records must be retained until the <u>later of</u>:

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

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

FA 1998 Sch 18 paras 21 & 23

4) <u>Options for relieving the trading loss</u>

Hatnut Ltd can make a claim to set the trading loss against its 'total profits' (that is income and gains before deducting qualifying charitable donations) of the year ended 31 December 2020 (the loss making accounting period).

After a claim has been made against the total profits of the year ended 31 December 2020, Hatnut Ltd can claim to set the remaining loss against the total profits of the previous 12 months. In this case it would set the loss against its total profits in the four months to 31 December 2019 first and then against 8/12 of the total profits in the year ended 31 August 2019.

If Hatnut Ltd ceases to trade the trading loss can be carried back against the total profits of the previous 36 months (instead of the previous 12 months), setting the loss against the total profits of the most recent accounting periods first.

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.

If Hatnut Ltd continues to trade and makes any future profits, the trading loss can be carried forward and a claim made to set it (or a specified amount of it) against the total profits of the next accounting period (subject to the restriction on loss relief carried forward).

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

<u>Tutorial Note:</u>

The maximum amount of carried forward trading losses (whenever incurred) which may be offset against profits of accounting periods beginning on or after 1 April 2017 is the lower of:

- *the unrelieved trading loss;*
- *the deductions allowance of £5m per group or standalone company plus 50% of the company's unrelieved profits above that amount*

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

9. METROPOLIS LTD

1)

	Y/e 31 December 2019	3 m/e 31 March 2020
	£	£
Adjusted profits before CAs (753,000 x 12/15 : 3/15) (W1)	602,400	150,600
Less: CAs (W2)	(31,200)	(4,428)
Trade profit	571,200	146,172
Non-trading profits (LR) (28,000 x 12/15 : 3/15)	22,400	5,600
Chargeable gain (W3)		64,320
TTP	593,600	216,092

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

	Y/e 31 December 2019	3 m/e 31 March 2020
	£	£
Large company threshold = 1,500,000 x 3/12	1,500,000	375,000
TTP	593,600	216,092
Dividends received	27,000	
Augmented profits	620,600	216,092
Quarterly instalments	No	No

Share ownership by individuals is ignored in determining the number of related 51% group companies.

CT liabilities:	£
Y/e 31 December 2019	
593,600 x 19%	112,784
Due date for payment of tax	1.10.20
3 m/e 31 March 2020	
216,092 x 19%	41,057
Due date for payment of tax	1.1.21

2)

Forms CT600 for both periods are due no later than 31 March 2021.

Workings

W1) Adjustment of profit

	£
Net profit per accounts	829,450
Add:	
Depreciation	30,000
Business entertaining	13,400
Moveable partitions	9,600
Legal fees re sale of shares	550
Less:	
Bank interest	(28,000)
Profit on shares	(75,000)
Dividends received	(27,000)
Adjusted profit	753,000

W2) Capital allowances

Y/e 31.12.19	AIA @ 100%	General Pool	CAs
	£	£	£
Tax wdv b/f		120,000	
Additions:			
Moveable partitions	9,600		
AIA @ 100%	(9,600)		9,600
WDA @ 18%		(21,600)	21,600
Tax wdv c/f		98,400	31,200
3 m/e 31.3.20			
WDA @ 18% x 3/12		(4,428)	4,428
Tax wdv c/f		93,972	

Tutorial Note:

Where it is obvious that the additions will be covered by the AIA, as in this question, there is no need to show a working to calculate the maximum AIA.

W3) Gain on sale of shares

	£
Proceeds (February 2020)	95,000
Less: Legal fees	(550)
	94,450
Less: Cost (March 2004)	(20,000)
Unindexed gain	74,450
Less: Indexation allowance	
March 2004 to December 2017	
(278.1 – 184.6)/184.6* x 20,000	(10,130)
Chargeable gain	64,320

Tutorial Note:

**There is no rounding of the indexation factor on a disposal of shares.*

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 at 19% on its taxable total profits for each corporation tax accounting period. The first corporation tax accounting period will be the 12 months to 30 June 2021.

Corporation tax is payable by the company no later than nine months and one day from the end of the corporation tax accounting period, ie by 1 April 2022 in respect of the year ended 30 June 2021.

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

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

Although there is a £3,000 employment allowance available to reduce an employer's class 1 secondary NIC 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.

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

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

For the first tax year (2020/21) you will pay tax on the profits of the period from 1 July 2020 to 5 April 2021. This will require the results of your first accounting period up to 30 June 2021 to be apportioned.

In 2021/22 you will be taxed on profits of the first 12 months of trade (1 July 2020 to 30 June 2021). This means some profits will be taxed twice. These are called 'overlap profits'. You will receive relief for these either if you move your accounts date nearer to 5 April, or on the cessation of your trade.

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

As a sole trader you will pay Class 2 and Class 4 National Insurance rather than Class 1 NIC as a director of a company.

VAT registration

Registration for VAT is compulsory if your turnover (ie sales) of taxable supplies in the previous 12 months (or from the date of commencement if shorter) exceed the VAT registration threshold which is currently £85,000.

Based on your business plan, you will breach the threshold on 31 December 2020, so you should notify HMRC of your requirement to register for VAT by 30 January 2021 and should charge VAT on sales from 1 February 2021.

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

You will however be able to recover any VAT you incur on your purchases.

You will also have to file quarterly VAT returns.

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

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

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

Yours sincerely,

Tax Adviser