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### **Association of Taxation Technicians**

# **Examination**

November 2004

## PAPER 2 - PART I

#### **BUSINESS TAXATION**

TIME ALLOWED - 3 HOURS (for Part I and Part II)

You are required to answer **all** questions in Part I and any **three** out of five questions in Part II (printed separately).

#### Part I

You must write your answers in this booklet using the space provided under each question and complete your candidate number at the top of this page.

Each question carries two marks. It is expected that your answers will be in brief bullet point format or summary computations. It is not expected that you will require all the space provided.

Murphy Ltd, a small 1 July 2002 preparing	company for Corp g accounts for the	poration Tax purp period to 31 Dece	ooses, commenced tember 2003.	o trade on
During the period the	following items w	ere acquired:		
1 July 2002 1 January 2003 31 July 2003 Calculate the maxin	Computer Car Van num claim for cap	£ 2,000 12,000 10,000 Dital allowances	arising for the perio	od.

7	State when an accounting period of a company is deemed to end for Corportax purposes.
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prepared accounts to 31 August 2003 and annually thereafter. The following adjusted profits arose for the first two periods: £ 55,000 Period to 31 August 2003 Year ended 31 August 2004 48,000 Calculate Gandalf's assessable profits for 2003/04 and the overlap relief to carry forward.

3. Gandalf commenced to trade as a self-employed wand maker on 1 October 2002 and

4.	<ol> <li>John is a computer consultant trading via his o During the year to 31 March 2004 he is engaged companies. Total fee income from these assignment within the provisions of IR35.</li> </ol>	d on two assignments by two different
	The following information is also relevant:	
	Salary paid to John 30,000 Employers National Insurance 3,500 Contributions paid on salary	(taxed under PAYE)
	Calculate the deemed employment payment to National Insurance Contribution liability there	

assoc	under ciated w	wnat ith ano	ther co	ompan	es a y for t	com he pur	pany poses	woul s of C	orpor	ation	Tax.	as	r
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6.	Phillipa commenced to trade as an interior depermanently ceased to trade on 31 July 2003 were as follows:	
		£
	Period ended 30 April 2000	66,000
	Year ended 30 April 2001	48,000
	Year ended 30 April 2002	40,000
	Year ended 30 April 2003	30,000
	Period ended 31 July 2003	10,000
		,
	She has received no other income throughout the	nis period.
	Calculate Phillipa's taxable income for 200 available claims and elections are made.	2/03 and 2003/04 assuming that all

years a	anuary 2002 Norma Hope gave up her job and commenced to trade as a sel ed florist preparing accounts to 31 March in each year. After a profitable few new competitor seriously affected her business. In the year to 31 March 200 urred a loss of £20,000.
State th	ne claims available for relief in respect of this trading loss.

Pip Ltd and its w year ended 31 M	holly owned su arch 2004:	ıbsidia	ry Squeal	k Ltd	had t	he foll	owir	ng res	ults for	the	
					Pip I	∟td £		Sque	ak Ltd £		
Dividend rece	DI Trading profit Dividend received from Squeak Ltd Dividend received from quoted investment				1	0,000 0,000 9,000		40,000 - -			
Calculate the 31 March 2004.	Corporation	Tax	liability	of	Pip	Ltd	for	the	year	ende	

8.

close in	e conditions that must be satisfied fo evestment holding company and the ta	ax effect of being so treated.

Smudge Ltd sold its business and as company acquired a new trade by prepares accounts to 31 December e	purchasing an existing	g business. The company
		£
Original cost of goodwill Sale proceeds for goodwill Purchase cost of goodwill (estimated useful life 10 years)	1 January 1988 1 October 2002 1 January 2003	20,000 70,000 80,000
,		
Calculate the gain arising on disport the year ended 31 December 2003 are made.	osal of goodwill and tl 3, assuming all availa	he tax reliefs available in ble claims and elections

10.

ŀ	Syd has traded as an architect for many years and in November 2003 he sold his pusiness premises for £250,000. The premises had originally cost £90,000 in April 1990. In December 2003 Syd purchased a new property for £200,000, three quarters of which are to be used for the purposes of his trade whilst the remainder will be let.
	Calculate the chargeable gain arising on disposal after taper relief and the base cost of the new property assuming all available claims and elections are made.
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Harold and Cyril have been trading in partnership for many years preparing accounts to 12. 30 April each year. Profits have been shared 75:25. On 1 December 2003 Geoff joined the partnership with a new profit share arrangement as follows: Geoff is given a salary of £30,000 per annum. Balance of profits to be shared in the ratio 7:2:1 to Harold, Cyril and Geoff respectively. The profits for the year ended 30 April 2003 are £200,000 The profits for the year ended 30 April 2004 are £300,000 Calculate the assessable profits for each partner for 2003/04.

13.	Dodgy Ltd prepared accounts to 31 January 2004. During the year the company used two cars with the relevant details as follows:
	Car 1, which had a retail price when new of £20,000, was hired on a contract hire basis. The total hire payments in the year were £6,500.
	Car 2 was purchased under a hire purchase agreement, with a capital cost of £12,000, on 1 March 2003. Hire purchase interest paid in the year amounted to £750.
	Calculate the tax reliefs available to Dodgy Ltd on these two cars.

 er would	be given.	ı			

15. Apple Ltd and its two wholly owned subsidiaries Orange Ltd and Kiwi Ltd have the following results for the year ended 31 March 2004:

	Apple Ltd	Orange Ltd	Kiwi Ltd
	£	£	£
Trading profit/(loss)	50,000	30,000	(90,000)
Chargeable gain	20,000	-	- -
Schedule A rental income	10,000	20,000	3,000

Additionally Apple Ltd has trading losses brought forward of £30,000

Calculate the profits chargeable to Corporation Tax for each company assuming the most beneficial claims and elections are made.						

16. Horse Ltd and Rabbit Ltd are fellow subsidiaries of a large group of companies. In total there are 25 non-dormant companies in the group inclusive of these two companies. The profits chargeable to Corporation Tax for the companies for the two years ended 31 December 2002 and 2003 are as follows:

	31 December 2002 £	31 December 2003 £							
Horse Ltd Rabbit Ltd	50,000 50,000	450,000 350,000							
State the due dates of payment for the tax liabilities arising for each company for the year ended 31 December 2003.									

tı	State the conditions that must be satisfied in order for companies to registoreatment as a group for VAT purposes, and state the effect of such registrate.
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George, a VAT registered trader, is late in submitting his VAT return for the quarter 18. ended 30 September 2002 and is also late in paying the VAT. As a result he is served with a surcharge liability notice. The returns and VAT payments for subsequent quarters are as follows: Quarter ended Date submitted VAT due Date paid 31 December 2002 7 February 2003 £10,000 10 February 2003 31 March 2003 25 April 2003 £12,000 5 May 2003 30 June 2003 10 August 2003 £15,000 30 July 2003 Calculate any additional liabilities arising as a result of the above and any other implications arising out of the above.

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20.	Mr Jones, a VAT registered trader making only standard rated supplies, offers his customers the following prompt payment discounts as noted on his VAT invoices:								
	Payment within 15 days 5% discount Payment within 30 days 2% discount								
	During the VAT quarter to 31 December 2003 three invoices for £1000 each (before discount and VAT) were issued. One invoice is paid after 10 days, the second after 21 days and the third after 60 days.								
	Calculate the output VAT due for the quarter and the gross value of supplies for VAT return purposes.								