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Association of Taxation Technicians

Examination

May 2005

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.

| Misty Ltd, a small cor year ended 31 Decem | mpany for College 1904. | orporat | ion Tax | purposes | s, prepare | ed acc | ounts | for the |
|---|-------------------------|---------|----------------------|----------|------------|----------|-------|---------|
| The company had a g of £15,000 and the fol | | | | | | l at 1 J | anuar | y 2004 |
| 28 February 2004 30 June 2004 | Van Computer | | £ 15,000 3,000 | | | | | |
| There were no dispos | als in the yea | ır. | | | | | | |
| Calculate the maxi 31 December 2004. | imum claim | for | capital | allowan | ces for | the | year | ended |
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| State when Corporation | an accounting Tax purposes. | period | of | а | company | is | deemed | to | begin | for |
|------------------------|-----------------------------|--------|----|---|---------|----|--------|----|-------|-----|
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| 3. | Woodward Haulage Ltd, a company wholly owned by Mr and Mrs Woodward, has the following details for the year ended 31 March 2005: |
|----|--|
| | Schedule D Case I profit 18,000 Dividends received (net) 1,800 Dividends paid 5,000 |
| | Calculate Woodward Haulage Ltd's Corporation Tax Liability for the year ended 31 March 2005. |
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| C | tate the conditions that must be satisfied for expenditure incurred pri ommencement of a trade to be tax deductible and when the expen eemed to have been incurred for tax purposes. | | | | | | |
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| 5. | Gerry commenced to trade on 1 February 2002 with the following results for subsequent periods: |
|----|---|
| | £ Period ended 31 December 2002 22,000 Year ended 31 December 2003 36,000 Period ended 31 July 2004 14,000 Year ended 31 July 2005 48,000 |
| | For 2004/05, calculate Gerry's assessable profits and the overlap profits to be carried forward. |
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| Reve | nue can | open ar | n enquir | y, will y into t | arise, he retu | the late | est date under v | e by wl | hich the cumstand | Ir ces |
|------|---------|----------|----------|---------------------|-------------------|----------|---------------------|---------|----------------------|-----------|
| date | an be e | extended | | | | | | | | |
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| Farmer Rob has 30 June annually. expenditure: | Farmer Rob has for many years traded as a cattle farmer preparing accounts 30 June annually. During the year ended 30 June 2004 he incurred the following cap expenditure: | | | | | | | |
|---|--|--------------|--|--|--|--|--|--|
| | | £ | | | | | | |
| 1 October 2003 | Purchase of a field from a neighbouring farmer | 15,000 | | | | | | |
| 1 November 2003 | | 10,000 | | | | | | |
| 1 May 2004 | Extension to the farmhouse | 12,000 | | | | | | |
| Calculate the ma | aximum claim for agricultural building allowan r ended 30 June 2004. | ces that can | | | | | | |
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| 8. | Transfers of chargeable assets between members of a 'group' of companies are deemed to take place on a no gain/no loss basis. |
|----|---|
| | Define a group of companies for this purpose. |
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| The results for | or the relevant accounting periods were as for | ollows: |
|---------------------------|--|--|
| Romeo Ltd | Year ended 31 March 2005 | Schedule D Case I Profit/(Loss) £ 20,000 |
| Juliet Ltd Juliet Ltd | Year ended 31 March 2003 Year ended 30 September 2004 Year ended 30 September 2005 | (10,000) (40,000) |
| Calculate the ended 31 Ma | e maximum claim for group relief that ca arch 2005 profits of Romeo Ltd. | an be made against the year |
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Romeo Ltd acquired the entire issued share capital of Juliet Ltd on 1 July 2004.

|). | During the year ended 30 April controlling shareholder. The loan | 2004 Walter Ltd made a loan of £30,000 to Harry its n was repaid as follows: |
|----|--|--|
| | 1 November 2004 1 March 2005 10 May 2005 | £ 10,000 10,000 10,000 |
| | State the tax liabilities payabl any such liabilities will be repa | le by the company on the loan and the dates when ayable. |
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Wood Ltd, a company involved in the manufacture of furniture also owns a rental 11. property let to an unconnected third party. During the year ended 31 January 2005 it incurs interest on the following loans: Loan to purchase new van for delivery of goods manufactured 1) 2) Loan to build extension to rental property State how tax relief can be claimed for the interest on each of these loans.

| company | y and the imp | lications the | reof. | | |
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- 13. Graham commenced to trade as an estate agent on 1 August 2004 preparing his first accounts to 31 March 2005. On 1 August 2004 he entered into a 10-year lease on the following terms:
 - 1) Legal fees incurred on drawing up lease £2,000
 - 2) Premium paid to landlord on granting of lease £10,000
 - 3) Annual rent £24,000 payable quarterly in advance

| Calculate the tax deductions period ended 31 March 2005. | available | for | these | items | of | expenditure | in | the |
|--|-----------|-----|-------|-------|----|-------------|----|-----|
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| | Profit/(loss) |
|---|--|
| Period ended 30 June 2004 Year ended 30 September 2003 | (15,000) 24,000 |
| He also has unused overlap relief | of £5,000 |
| Calculate the maximum relief (terminal loss relief). | available under the provisions of s.388 TA1988 |
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Alex ceased to trade on 30 June 2004. His results for relevant periods were as follows:

| not be al | o circumstances in lowed under the pro | visions of s.38 | 30 TA1988. | |
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| following results for the year ende | ed 31 March | 200 | 5: | | | | |
|---|---------------------------|-----|-------------|------------|-----------|------------------|------|
| | <u>Lemon</u> £ | | <u>Orar</u> | ige £ | <u>Ba</u> | nana £ | |
| Schedule D Case I profit/(loss) Chargeable gain /(loss) | 280,000 30,000 | | (100 | ,000) - | (2 | 50,000 20,000 | |
| Calculate the Corporation Table beneficial claims and elections | ax liability are made. | of | Lemon | Ltd | assuming | the | most |
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Lemon Ltd and its two wholly owned subsidiaries Orange Ltd and Banana Ltd have the

| provided | before VAT | registratio | on be ciai | mea ? | | |
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| Paul is using the flat rate scheme for VAT with a 6% rate. During the quarter ended March 2005 the following arose: | | | | | | | | led | | | |
|--|--|----|----------------------------|----------|---------------------------------------|---------|-----|-----|---------|-------|--|
| | Standard rated supplie Exempt supplies Standard rated inputs | | £ 10,00 1,00 5,00 | 00 00 | (exclusive of VAT) (exclusive of VAT) | | | | | | |
| | You are required 31 March 2005. | to | calculate | the | VAT | payable | for | the | quarter | ended | |
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| in respec | t of an unpaid | ı invoice. | | | |
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| 20. | Norman is employed and receives a salary of £36,000 per annum paid monthly on the 28th of each month in arrears. On 1 August 2004 Norman was 65. He is not contracted out for National Insurance Contributions purposes. |
|-----|--|
| | Calculate Norman's primary class I National Insurance Contributions liability for the year ended 5 April 2005. |
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