

Candidate Number			



Association of Taxation Technicians

Examination

November 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.

1. Molly Ltd, a small company for Corporation Tax purposes, prepared accounts for the period from 1 February 2004 to 31 December 2004. The following information is relevant in respect of capital allowances for the accounting period to 31 December 2004:

Capital allowances pool brought forward - £20,000
Purchase of new van on 1 May 2004 - cost £12,000
Disposal of van on 1 July 2004 - sale proceeds £8,000
(original cost of van sold was £15,000)

Calculate the maximum claim for capital allowances for the accounting period ended 31 December 2004.

- Interesting Ltd is one subsidiary in a large group of companies and in the year to 31 December 2004 incurred a non-trade deficit.

State the reliefs that are available for the non-trade deficit made by Interesting Ltd in the year ended 31 December 2004.

3. Margaret commenced to trade on 1 July 1995 preparing accounts to 30 June 1996 and annually thereafter. She has however now changed her accounting date preparing accounts to 30 November 2004. Her profits as adjusted for tax purposes for the relevant periods are as follows:

	£
Year ended 30 June 1996	90,000
Year ended 30 June 2004	60,000
Period ended 30 November 2004	50,000

Calculate Margaret's assessable profits for 2004/05 and any overlap relief to carry forward.

- 4. Johnson (SW) Ltd, a company wholly owned by Mr and Mrs Johnson had the following results for the year ended 30 June 2004:

	£
Schedule DI trading profit	40,000
Dividends paid on 30 April 2004	15,000

Calculate the Corporation Tax liability of Johnson (SW) Ltd for the year ended 30 June 2004.

6. Bonny Ltd prepared accounts to 31 May 2004 and in those accounts had accrued for staff bonuses of £40,000 and had accrued for pension contributions for staff of £20,000.

The staff bonuses were paid as follows:

	£
30 August 2004	25,000
31 March 2005	<u>15,000</u>
	<u>£40,000</u>

The pension contributions were paid as follows:

	£
30 September 2004	15,000
12 March 2005	<u>5,000</u>
	<u>£20,000</u>

State the adjustments, if any, that must be made in respect of the above in the 31 May 2004 Corporation Tax computations.

7. In September 2004 Mr Hall purchased a piece of land for £80,000 from Tag Ltd, a profitable company, in which he is a 60% shareholder. It was subsequently agreed following an enquiry from the Inland Revenue that the true market value was £120,000. The land had originally cost the company £20,000 in June 1995.

State the tax implications for both Mr Hall and Tag Ltd of the increased valuation (Detailed computations are NOT required).

8. Brian sold his business premises on 1 September 2004 for £400,000. On 1 November 2004 he acquired new business premises for £250,000. Both the old and the new premises were used exclusively in his business. The old premises had been acquired on 1 September 1998 for £200,000.

Calculate the chargeable gain, after taper relief, on disposal of the premises assuming all beneficial claims are made and calculate the tax base cost of the new premises.

9. Jim, a building contractor had the following entries in respect of bad debts for the year ended 30 June 2004:

Provision for bad debts brought forward at 1 July 2003

	£
General Provision	3,000
Specific Provision	<u>6,000</u>
	<u>£9,000</u>

Provision for bad debts carried forward at 30 June 2004

	£
General Provision	4,000
Specific Provision	<u>8,000</u>
	<u>£12,000</u>

Bad debts written off in year ended 30 June 2004 - £2,000

Calculate the tax allowable deduction available in respect of bad debts for the year ended 30 June 2004.

10. Jim had traded for many years preparing annual accounts to 30 June. For the year ended 30 June 2004 he incurred a loss.

State how relief can be claimed by Jim in respect of the loss arising for the year ended 30 June 2004.

11. Big Ltd and its wholly owned subsidiary Little Ltd had the following results for the years ended 31 December 2004 and 31 July 2004 respectively:

Big Ltd Year ended 31 December 2004
Schedule DI Profit £420,000

Little Ltd Year ended 31 July 2004
Schedule DI Loss (£480,000)

Little Ltd returned to profit in the year ended 31 July 2005.

Calculate the Corporation Tax liability of Big Ltd for the year ended 31 December 2004 assuming all beneficial claims are made.

13. Simon, Paul and Dave had traded in partnership since 1 October 2000 sharing profits in the ratio 5:4:1 respectively, after a prior salary to Dave of £20,000 per annum, and preparing accounts to 30 September annually. On 30 June 2004 Dave retired from the partnership. From 1 July 2004 the profits were shared equally between Simon and Paul. Profits accrue evenly over the periods and the relevant partnership profits for all periods were as follows:

30 September 2001	£140,000
30 September 2002	£200,000
30 September 2003	£240,000
30 September 2004	£220,000

Calculate the assessable profits of Dave for 2004/05.

15. The shares in Epsom Ltd were held as follows on 1 October 2003:

Andover Ltd	20%
Bury Ltd	20%
Cambridge Ltd	30%
Derby Ltd	30%
Total	<u>100%</u>

On 1 April Andover Ltd acquired a further 15% from Derby Ltd and Bury Ltd acquired a further 15% from Cambridge Ltd. In the year ended 30 September 2004 Epsom Ltd had losses of £100,000 and Andover Ltd and Bury Ltd had profits of £15,000 and £30,000 respectively.

Calculate the consortium relief which can be claimed by Andover Ltd and Bury Ltd.

17. Isabella is a VAT registered trader who is in the process of finalising her VAT return for the quarter ended 31 December 2004. At 31 December 2004 she had the following two invoices received from suppliers that had not been fully paid:

- 1) Invoice dated and goods received on 20 May 2004 for £1,175 (inclusive of VAT) stating payment due within 30 days. A payment of £600 had been made against this invoice on 1 November 2004.
- 2) Invoice dated and goods received on 20 June 2004 for £2,300 (inclusive of VAT) stating payment due within 30 days (inclusive of VAT). No payments had been made against this invoice.

State the adjustments, if any, that must be made in the 31 December 2004 VAT return in respect of these two invoices.

18. State in what circumstances VAT on supplies received after de-registration can be recovered.
