Candidate Number			



## **Association of Taxation Technicians**

## Examination

May 2006

## 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. Polly has run a small business for many years as a florist, preparing accounts to 30 June annually. For the year ended 30 June 2005 the following movements arose in respect of capital items:

General pool tax written down value at 1 July 2004		£6,000
28 February 2005 30 April 2005 (original cost £12,000).	purchase of van disposal of van	£10,000 £8,000

Calculate the maximum claim for capital allowances in respect of the year ended 30 June 2005.

2. State the definition of a close company for Corporation Tax purposes.

 David commenced to trade on 1 December 2004 preparing his first accounts to 31 May 2005 and annually thereafter. His results for the opening periods were as follows:

 Period ended 31 May 2005
 loss
 £(18,000)

 Year ended 31 May 2006
 profit
 £108,000

Calculate David's assessable profits for 2005/06 (before any relief for losses) and also calculate any overlap profits to carry forward.

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- 4. State the definition of a group of companies for the purposes of Corporation Tax group relief.

5. The entire issued share capital of North Cold (Distributors) Ltd is owned by Mr and Mrs North. The following information is relevant for the two years ended 31 March 2005 and 31 March 2006.

	Year ended 31 March 2005	Year ended 31 March 2006		
Profits as adjusted for tax purposes	£ 25,000	£ 40,000		
Dividends paid	30,000	15,000		
Calculate the Corporation Tax liability	for the year ended	31 March 2006.		

6. In order to qualify for relief under the Corporate Venturing Scheme, a company's investment must be in a 'qualifying issuing company'.

State the conditions that must be satisfied for a company to be a 'qualifying issuing company' for the purposes of the Corporate Venturing Scheme.

\_\_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ 7. Terri commenced to trade on 1 October 2004 preparing accounts for the period ended 31 March 2006 and annually thereafter. A loss arose for this period of £21,600. Terri's other taxable income for recent tax years was:

	£
2005/06	Nil
2004/05	Nil
2003/04	18,000
2002/03	20,000
2001/02	6,000

Calculate Terri's taxable income for 2002/03 and 2003/04 on the basis that relief for the loss is claimed at the earliest possible date.

8. Sparrow Ltd and its wholly owned subsidiary Finch Ltd had the following results for the year ended 31 March 2005.

	Sparrow Ltd	Finch Ltd
Schedule DI trading profit	£800,000	£600,000

The directors have estimated that each company will increase its profits in the year ended 31 March 2006 by £200,000.

State the due dates of payment of the Corporation Tax liabilities for the year ended 31 March 2006 for each company. (You are not required to calculate the Corporation Tax liabilities of the companies).

9. Capital expenditure for capital allowance purposes is normally treated as incurred as soon as there is an unconditional obligation to pay.

State under what circumstances expenditure is treated as incurred on a later date.

\_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ ------ 10. During the year ended 30 November 2005 Price & Co Estate Agents incurred the following legal fees:

	£
In relation to disposal of old business premises	2,000
In relation to the collection of bad debts	750
In relation to obtaining planning permission for new	
business premises	1,000
In relation to the taking on of a new business loan	1,500
	£5,250

Calculate the allowable trading deduction in respect of legal fees.


11. Tardy Ltd submitted its Corporation Tax return for the year ended 31 May 2004 on 16 December 2005. The tax liability for the period was £10,000 which was paid on the same date. Tardy Ltd has never previously filed its return late.

State the penalties that will apply in respect of the late submission of the Corporation Tax return for the year ended 31 May 2004.

12. Beagle Ltd had the following results for the year ended 31 March 2006:

	£
Schedule DI profit	200,000
Franked investment income	10,000
Dividend received from wholly owned subsidiary	20,000

Calculate the Corporation Tax liability of Beagle Ltd for the year ended 31 March 2006.

<b></b>

13. State two circumstances in which a company incorporated outside the UK can be liable to UK taxation.

14. Ellie has traded for many years as a self-employed dressmaker preparing accounts to 31 March annually. On 31 March 2006 she ceased trading with a loss arising for this final year.

State how relief for the loss arising in the year ended 31 March 2006 can be claimed.

15. During the year ended 30 September 2005 Liam, a self employed accountant, incurred the following expenses in regard to the rental of new business premises:

	£
Legal fees in relation to taking on a new 10 year lease	1,500
Lease premium paid on 01 June 2005 on taking on a	10,000
10 year lease	
Quarterly rent paid in advance on 01 June 2005	3,000
Quarterly rent paid in advance on 01 September 2005	3,000

Calculate the amount allowable in respect of the above expenses for the year ended 30 September 2005.


17. Ruth commenced to trade on 1 June 2005. Her monthly turnover is expected to be as follows:

	£
Standard rated supplies	12,000
Exempt supplies	2,000
Zero-rated supplies	7,000
	£21,000

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.

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- 18. State the conditions for eligibility to join the VAT annual accounting scheme for new and for existing businesses.

19. Matthew makes both standard rated and exempt supplies. In the quarter ended 30 June 2005 the value of such supplies were £300,000 and £60,000 respectively.

Standard rated supplies included the following:

Disposal of old machinery previously used in trade	£ 30,000
Input tax for the period was as follows:	
Directly attributable to standard rated supplies Directly attributable to exempt supplies Unallocated input tax	12,000 10,000 <u>13,000</u> <u>35,000</u>

Calculate the VAT due for the quarter ended 30 June 2005

Sophie had two part-time employments for the year to 5 April 2006 as follows:		
Sales assistant with quoted retail company	£14,000	
Office administrator with a subsidiary of the same quoted retail company	£15,000	
Calculate Sophie's Class 1 National Insurance Contributions liability for 2005/06 on these employments.		