

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.

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- | | | |
|--------------------------|--------|-----------|
| 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.

[illegible]

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

[illegible]

- | | <u>Year ended</u>
<u>31 March 2005</u> | <u>Year ended</u>
<u>31 March 2006</u> |
|--------------------------------------|-------------------------------------------|-------------------------------------------|
| | £ | £ |
| 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.

[illegible]

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

[illegible]

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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

	<u>Sparrow Ltd</u>	<u>Finch Ltd</u>
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).

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

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	<u>1,500</u>
	<u>£5,250</u>

Calculate the allowable trading deduction in respect of legal fees.

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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.

This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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 year lease	10,000
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.

16. **State the time limits in which HM Revenue & Customs can open an enquiry into a Corporation Tax return and under what circumstances these time limits can be extended.**

[illegible]

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
	<u>£21,000</u>

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.

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

[illegible]

- Standard rated supplies included the following:

Input tax for the period was as follows:

Calculate the VAT due for the quarter ended 30 June 2005

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- | | |
|--------------------------------------------------------------------------|---------|
| 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.

[illegible]