

Candidate Number			



Association of Taxation Technicians

Examination

November 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. Patrick commenced trading as a self-employed management consultant on 1 June 2004, preparing his first accounts to 31 December 2005. Patrick expected to earn income in the region of £80,000 per annum.

The following movements in respect of capital items arose in the period:

31 July 2004	–	Purchase of computer equipment	£2,400
31 August 2005	–	Purchase of office furniture	£2,500

Calculate the maximum claim for capital allowances in respect of the period ended 31 December 2005.

3. The share capital of North Cornwall Distillers Ltd is held 80% by Mr John Smith and 20% by Cornish Pixies Ltd. The results of North Cornwall Distillers Ltd for the year ended 31 March 2006 were as follows:

Profits chargeable to Corporation Tax	£20,000
Dividends paid (pro rata to shareholdings)	£9,000

Calculate the Corporation Tax liability of North Cornwall Distillers Ltd for the year ended 31 March 2006.

5. Sour Grapes Ltd had the following results for the year ended 31 December 2005.

Profits Chargeable to Corporation Tax	£500,000
Dividends received from wholly owned subsidiary Stewed Prunes Ltd	£90,000
Dividends received on quoted investment	£18,000

Calculate the Corporation Tax liability of Sour Grapes Ltd for the year ended 31 December 2005.

6. Tony and Cleo had traded in partnership since 1 April 2000. On 1 December 2004 the business and goodwill was sold to a new company owned in equal shares by Tony and Cleo. The goodwill was sold for £42,000 and the first accounts were prepared to 31 December 2005.

Additionally on 1 February 2005 the company purchased the assets of an unconnected business with £60,000 of the purchase consideration allocated to goodwill.

All goodwill is amortised by the company over a period of five years from the date of acquisition.

Calculate the tax deduction available, if any, for the amortisation of goodwill in the accounting period ended 31 December 2005.

8. Jon commenced trading on 1 January 2004 with the following results for the opening periods:

	£
Period ended 30 April 2005	48,000
Period ended 31 December 2005	24,000
Year ended 31 December 2006	30,000

Calculate Jon's assessable profits for 2005/06 and any overlap relief available to carry forward.

9. **State what types of trade will qualify for Industrial Buildings Allowances on the cost of construction of a new building for use in their own trade.**

11. Monty Ltd and its two wholly owned subsidiaries Harmy Ltd and Freddy Ltd had the following results for the year ended 31 January 2006.

	<u>Monty</u>	<u>Harmy</u>	<u>Freddy</u>
	£	£	£
Trading profit/(loss)	150,000	(80,000)	120,000
Schedule DIII surplus/(deficit)	10,000	(20,000)	-
Rental income	-	10,000	30,000
Chargeable gain/(loss)	-	(40,000)	20,000

In addition Monty Ltd had trading losses of £10,000 brought forward.

Calculate the profits chargeable to Corporation Tax for Monty Ltd and Freddy Ltd for the year ended 31 January 2006 on the basis that the most tax efficient tax claims and elections are made.

12. During the year to 31 March 2006 DAG Ltd, a small company, included the following items in its repairs and maintenance heading in the profit and loss account:

	£
Purchase of air conditioning unit for new extension	5,000
Replacement of windows with new double glazed units	6,500
Removal of asbestos from newly purchased property	12,000
Purchase of security fencing around new property	2,500

State what reliefs are available for the expenditure included within repairs and maintenance as above.

13. Adventure Tours Ltd, a profitable company, prepares accounts to 31 January each year. On 25 January 2006 the company sold its trading premises with a chargeable gain of £150,000 arising.

State how the tax on the disposal of the business premises can be mitigated including any relevant time limits.

14. Robert had for many years run a business as a public relations consultant preparing accounts to 31 July in each year. On 1 August 2005 Robert incorporated his business by transferring all assets and liabilities to Robert's PR Consultants Ltd. The only chargeable asset transferred was goodwill which was valued at £50,000 and had been acquired in April 1998 for £20,000. On incorporation Robert received shares valued at £90,000 and cash of £30,000.

Calculate Robert's chargeable gain on incorporation after taper relief.

16. Bill, who has been farming for many years, had the following trading results as adjusted for tax purposes:

	£
Year ended 30 June 2004	Profit 44,000
Year ended 30 June 2005	Loss (10,000)
Year ended 30 June 2006	Profit 30,000

Calculate the profits assessable for 2004/05 and 2005/06 assuming all possible claims for averaging are made.

17. **State the conditions that must be satisfied in order for companies to register for treatment as a group for VAT purposes, and state the effect of such registration.**

18. On 26 June 2005 Gary, a sole trader, calculated that his supplies in the previous 12 months have exceeded the registration threshold.

State the date by which Gary must notify HM Revenue & Customs of his requirement to be registered and the penalties that can arise if he is late in registering for VAT.

- 19. Malcolm is late in submitting his VAT return for the quarter ended 31 October 2005 and is also late in submitting his VAT return for the following quarter to 31 January 2006.

State the potential consequences for Malcolm of his late submission of these two returns.

20. Peter, who has traded for many years as a Chartered Accountant, incurred a trading loss in the year to 30 June 2004 of £20,000 due to a large bad debt.

His other income details for the tax years 2004/05 and 2005/06 are as follows:

	<u>2004/05</u>	<u>2005/06</u>
Trading profit	£	£
Year ended 30 June 2004	Nil	-
Year ended 30 June 2005	-	40,000
Bank interest received (net)	4,000	10,000
Rental income	12,000	12,000

Relief for the trading loss was claimed against other income of 2004/05 only, with the balance of any unused relief carried forward.

Calculate Peter's Class 4 National Insurance Contributions liability for 2005/06.
