



Study Support

Business Tax (BTX)

Disclaimer

Study Support materials comprise **non live** assessments that were created for the **2003/2006 standards** and **do not** resemble assessments designed for the AAT Accountancy Qualification (launched July 2010).

There are some topic similarities between the 2003/2006 standards and the AAT Accounting Qualification (launched July 2010).

Practice assessments, guidance and standards for the AAT Accountancy Qualification (launched July 2010) can be found on the AAT website.

The Association of Accounting Technicians

Contents

- Support book Part 1** Unit 18: Business Tax Computations (BTC)
2003/2006 standards exam; June 2009 sitting, FA2008
- Support book Part 2** Unit 18: Business Tax Computations (BTC)
2003/2006 standards exam; December 2009 sitting

Support book Part 1

Questions

Source:

2003/2006 standards exam; June 2009 sitting, FA2008

Contents:

Unit 18: Business Tax Computations (BTC)

AAT Level 4 Technician Pathway (2003/2006 standards)

This exam paper is in **TWO** sections.

You must show competence in BOTH sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 5 tasks and Section 2 contains 5 tasks.

You should spend about 90 minutes on each section. Against each task is the recommended time for that task, but please note that these times are **guidelines** only.

There is blank space for your workings on pages 2, 10, 18 and 19, but you should include all essential calculations and workings in your answers.

BTC – Unit 18 FA2008
Tuesday 16 June 2009 (morning)

Time allowed - 3 hours plus 15 minutes' reading time

Taxation tables for business tax – 2008/09

Capital allowances:

Annual investment allowance	£50,000
Writing down allowance – Plant and machinery	20%
First year allowance – Low emission cars	100%
Energy efficient and water saving plant	100%

Capital gains

Entrepreneurs' relief Lifetime limit	£1,000,000
Relieving fraction	4/9
Annual exemption	£9,600
Tax rate	18%
Indexation allowance: April 1992 to November 2008	0.571

National insurance rates:

Class 2 contributions: Small earnings exemption	£2.30 per week £4,825 p.a.
Class 4 contributions: Main rate	8%
Additional rate	1%
Lower earnings limit	£5,435
Upper earnings limit	£40,040

Corporation tax:

Financial year	2008	2007
Small companies rate	21%	20%
Marginal relief: Lower limit	300,000	300,000
Upper limit	1,500,000	1,500,000
Marginal relief fraction	7/400	1/40
Full rate	28%	30%

Formula: Fraction x (M – P) x I/P

Section 1

Data

You work in the tax department of a firm of chartered accountants.

Emily Wilson has traded as a sole trader for many years. On 1 October 2008, Ismail Ali joined Emily as a partner.

You have been asked by your supervisor to do the tax computations for the business for the year ended 31 March 2009.

The accounting department has given you the following information:

1. Adjusted trading profits, before deducting capital allowances, for the year ended 31 March 2009 were £198,370.

2. Fixed asset information:

	£
Balances brought forward on 1 April 2008:	
General pool	56,995
Emily's car – 40% private usage	14,500
Additions:	
Machinery	27,050
Delivery van	12,400
Water saving plant	8,700
Office furniture	14,225
Car for Ismail Ali – 20% private usage	18,370
Disposal:	
Machinery – original cost higher than disposal value	11,660

3. Since 1 October 2008, Emily has received an annual salary of £20,000. Emily and Ismail have agreed to share the profits equally.

Data

You have received the following email from Emily.

From: e.wilson@heads.com
To: AATstudent@boxmail.net
Sent: 11 June 2009
Subject: Retirement

As you know, I have recently gone into partnership with Ismail, who is really successful in the business. As I have run the business for so long, I am thinking of retiring and selling the business to Ismail.

However, I think the business is worth quite a lot – possibly in excess of £1,500,000 – and I am concerned that if I go ahead, I will end up with a really large capital gains tax liability. Please advise me on how the sale would be taxed and what, if any, reliefs I could claim to reduce any gain as much as possible.

Any information or advice would be much appreciated.

Emily

Task 1.4 (15 minutes)

Reply to Emily's email, explaining the capital gains tax implications if she sells the business.

From: AATstudent@boxmail.net
To: e.wilson@heads.com
Sent: 16 June 2009
Subject: Re: Retirement

Data

You have received a query from Ismail. It is the first time that he has been self-employed and he doesn't know how the deadlines, forms or payments of tax operate for self-employed people.

Task 1.5 (15 minutes)

Provide Ismail with the following information:

(a) the dates by which he must pay his tax liabilities for 2008/09 and 2009/10

(b) the dates by which he must submit his tax return for 2008/09.

Section 2

Data

Shatter Ltd is a new client to your firm. The company has traded for many years.

The following information is available for the year ended 31 December 2008:

1. A summary of the accounts show:

	£	£
Gross profit		994,290
Depreciation	128,195	
Expenses	243,780	
Salaries	<u>334,195</u>	<u>706,170</u>
Net profit		<u>288,120</u>

The expenses include:

	£
Speeding fines incurred by a director	340
Customer entertaining	1,190
Political donation	2,500
Subscription to the trade association	450
Gift aid payment	750
Lease payments on a car costing £15,600	2,200

2. The capital allowances on plant and machinery have already been calculated at £74,430.
3. In October 2008, Shatter Ltd received a dividend of £5,400 from a company not associated with it.
4. Shatter Ltd owns 20 acres of land, which it bought in April 1992 for £100,000. In November 2008, Shatter Ltd sold 5 acres for £150,000, when the remaining 15 acres had a market value of £500,000.
5. There is a capital loss of £9,345 brought forward from the year ended 31 December 2007
6. Shatter Ltd has two associated companies.

Data

You have received the following email from the Managing Director of Shatter Ltd.

From: Neil.George@shatter.co.uk
To: AATstudent@boxmail.net
Sent: 12 June 2009
Subject: Tax returns

We are new clients to your firm, as we had some problems with our previous accountant. As a result, we have not submitted the tax return form for the year ended 31 December 2007.

I am quite concerned about this, but I have no idea about the implications. I don't even know when the return should have been submitted. I suspect that we are late, and that penalties or fines may have to be paid.

We are really busy here, and don't have the time to complete the return this month. I am hoping to complete it with the information provided by the previous accountant sometime in July.

Any advice or information that you can provide would be most welcome.

Thank you.

Neil

Task 2.5 (15 minutes)

Reply to Neil's email, providing all the information he needs.

From: AATstudent@boxmail.net
To: Neil.George@shatter.co.uk
Sent: 16 June 2009
Subject: Re: Tax returns

Model Answers

Note:

The model answers may, in parts, be longer than would be expected of candidates in the exam. The fuller version is given for teaching purposes.

Section 1

Task 1.1

(a)	General Pool £	Car (40%) £	Car (20%) £	Total £
Balance b/f	56,995	14,500		
Non-AIA additions:				
Car			18,370	
AIA additions:				
Machinery	27,050			
Van	12,400			
Furniture	<u>14,225</u>			
	53,675			
AIA	<u>50,000</u>	3,675		50,000
Disposals:				
Machinery	(11,660)			
	49,010			
WDA – 20%	<u>9,802</u>			9,802
WDA – 20% or £3,000		<u>2,900</u>		1,740
WDA – 20% or £3,000			<u>3,000</u>	2,400
FYA additions:				
Plant	8,700			
100%	<u>8,700</u>			<u>8,700</u>
Total allowances				<u>72,642</u>
Balance c/f	<u>39,208</u>	<u>11,600</u>	<u>15,370</u>	

Task 1.2

	£
Adjusted profits	198,370
Capital allowances (task 1.1)	<u>72,642</u>
Trading profits	<u>125,728</u>

Task 1.3

	Total £	Emily £	Ismail £
Period to 30 September 2008 £125,728 / 2	<u>62,864</u>	<u>62,864</u>	
Period to 31 March 2009			
Salary - £20,000 / 2	10,000	10,000	
Balance of profits	<u>52,864</u>	<u>26,432</u>	<u>26,432</u>
£125,728 / 2	<u>62,864</u>	<u>36,432</u>	<u>26,432</u>
Trading profits	<u>125,728</u>	<u>99,296</u>	<u>26,432</u>

Task 1.4

From: AATstudent@boxmail.net
To: e.wilson@heads.com
Sent: 16 June 2009
Subject: Re: Retirement

If you sell the business to Ismail, you will almost definitely be liable for capital gains tax.

This is worked out as the difference between the proceeds received and the cost of the business. This will result in a gain. Fortunately, as you will be selling a business, you will be eligible to claim the Entrepreneurs' Relief. This relief reduces any gain by 4/9, leaving 5/9 chargeable. It is restricted to lifetime gains of £1,000,000, so if the gain made exceeds this, the maximum relief that you can claim will be £444,444.

Any gain after this will be reduced by your annual exemption, and the resultant net gain is taxed at a flat rate of 18%.

The impact of the 4/9 relief is that it effectively reduces the tax rate, on the first £1,000,000 of gain, to 10%, so if you work out roughly what your gain is, 10% of that figure will give you an approximation of your tax liability.

I hope this is clear, but please feel free to contact me again if you need any further information.

AAT student

Task 1.5

- (a) Ismail will need to pay the tax liability from 2008/09 by 31 January 2010. For 2009/10, he will need to make two payments on account (POA) – on 31 January 2010 and 31 July 2010. A final balancing payment on 31 January 2011 may also need to be made.
- (b) If he is submitting a paper based return, this needs to be filed by 31 October 2009. If the return is to be filed online, this needs to be done by 31 January 2010.

Section 2

Task 2.1

	£	£
Net profit		288,120
Add:		
Depreciation	128,195	
Speeding fines	340	
Customer entertaining	1,190	
Political donation	2,500	
Gift aid	750	
Lease payments:		
$\frac{1}{2} \times (15,600 - 12,000) \times £2,200$	<u>254</u>	<u>133,229</u>
15,600		421,349
Less:		
Capital allowances		<u>74,430</u>
Adjusted profits		<u>346,919</u>

Task 2.2

	£
Proceeds	150,000
Cost:	
$£100,000 \times \frac{150,000}{150,000 + 500,000}$	<u>23,077</u>
	126,923
IA - $£23,077 \times 0.571$	<u>13,177</u>
Gain	<u>113,746</u>

Task 2.3

	£
Trading profits (task 2.1)	346,919
Chargeable gain (£113,746 - £9,345)	104,401
Gift aid	<u>(750)</u>
PCTCT	<u>450,570</u>

Task 2.4

	3 months £	9 months £
PCTCT – 3 / 9	112,642	337,928
Dividends – 5,400 x 100/90	<u>1,500</u>	<u>4,500</u>
Profits	<u>114,142</u>	<u>342,428</u>
SCMR lower limit – £300,000 / 3 – 3 / 9	25,000	75,000
SCMR upper limit - £1,500,000 / 3 – 3 / 9	125,000	375,000
CT Payable:		
PCTCT x 30% / 28%	33,792.60	94,619.84
Less: SCMR		
1/40 X (125,000 – 114,142) X 112,642 / 114,142	<u>267.88</u>	
	<u>33,524.72</u>	
7/400 X (375,000 – 342,428) X 337,928 / 342,428		<u>562.52</u>
		<u>94,057.32</u>
Total payable:	<u>£127,582.04</u>	

Date of payment – 1 October 2009

Task 2.5

From: AATstudent@boxmail.net
To: Neil.George@shatter.co.uk
Sent: 16 June 2009
Subject: Re: Tax returns

You are right to be concerned over this matter.

The date that the tax return was due for the year ended 31 December 2007 was 31 December 2008. As it is over five months late, there will be a penalty of £200. It is quite urgent that this return is submitted by the end of this month, otherwise it will be over six months late. In such a case, HMRC may impose a tax geared penalty, which is 10% of the unpaid tax.

I am sure that my firm would be able to assist you in the completion of the outstanding tax return. If you wish us to do so, please contact the office to discuss this further.

Regards

AAT student

Chief Assessor's report



AAT Accounting Qualification
NVQ/SVQ
Level 4
Preparing Business Taxation
Computations (BTC)
2003 Standards

AAT Accounting Qualification
Diploma pathway
Diploma level
Preparing Business Taxation
Computations (BTC)
2003 Standards

June 2009

General comments

This paper is the first one to cover the changes made to some aspects of the Standards in the 2008 Finance Act. As such, if a student did not fully prepare for the new rules, then they could struggle on some of the tasks that specifically targeted these changes.

As usual, Section 1 covered the aspects of a sole trader, and Section 2 covered taxation aspects of a limited company. There should have been no surprises in the paper to a well prepared student, especially as a detailed article has been written about the impact of these changes and several notices placed in both the *Accounting Technician* magazine and on the AAT website. Despite this, there was evidence that some students had failed to fully grasp the new rules, and this must be avoided for the December 2009 paper.

Section 1

Task 1.1

Capital allowances have seen quite a drastic change in the tax rules and the majority of these rules were tested in this task. Many students performed well, clearly appreciating that this topic would be assessed in this paper.

The key to success in this task is the appreciation of the order of events that need to be placed in the computation, and what attracts annual investment allowance (AIA), and what does not. Following a logical structure and layout is vital in order to avoid confusion over which items attract what allowances.

Most students understood that the water saving plant attracted 100% first year allowance, and not AIA, and that Emily's car did not automatically attract £3,000 written down allowance. Having one car at a cost below £15,000 and one car at a cost above £15,000 was deliberately incorporated into the question to ensure that candidates demonstrated full understanding of the impact of the change of WDA to 20%.

Generally, this was all well handled.

Tasks 1.2

This was a very straightforward task, requiring students only to adjust the given profits for the capital allowances computed in task 1.1.

Whilst straightforward, this task was vital in preparation for the next task.

Task 1.3

Given how well students coped with task 1.1, it was to be hoped that they had covered the whole syllabus in full. This is clearly not the case and it was a rare student who gained full marks for this task.

Given that apportionment of profits for partners was examined in June 2008 and the comment was made then on the poor quality of answers, it was hoped that students and tutors had noted this and covered this area thoroughly. This is clearly not the case. As in June 2008, the main area of confusion is over the treatment of the salary for Emily. Students must understand how to tackle partnership accounts – the principles are the same as assessed in the FRA paper, yet they seem incapable of transferring that knowledge to the taxation issues.

The most common error made was:

	£	
Trading profits	125,728	(or student equivalent)
Salary	<u>10,000</u>	
	<u>115,728</u>	
6 months to Emily	<u>57,864</u>	
Balance – ½ to Emily	28,932	
Balance – ½ to Ismail	<u>28,932</u>	
	<u>57,864</u>	

The problem with this is that Emily only started receiving the salary once the partnership was formed on 1 October 2008. If you compare the above answer to the correct one, you will see that Emily received:

	£
Correct answer	99,296
As above, including £10,000 salary	<u>96,796</u>
Difference	<u>2,500</u>

It is therefore vital that students fully appreciate how to handle appropriation of profits for partnerships.

Task 1.4

This task covered the other major change to the tax rules, being the introduction of a relief for capital gains, entrepreneur's relief. Generally, this task was well handled, and it appeared that students were prepared for a complex computational question.

Traditionally, students do not like discursive tasks, but this one was well answered, with students taking time to structure their answers logically and sensibly.

Task 1.5

As with task 1.3, the answers to these types of questions tend to be poorly answered, and this task was no exception. Students tended to repeat rote learnt answers, stating 31 January and 31 July, but failing to put these dates into context.

Far too many students stated that there would be three payment dates for 2008/09, the payments on account being based on his tax liability for 2007/08. As Ismail only started trading in the partnership on 1 October 2008, it is clear that students are not applying logic to their answers; they are not reading the data carefully to appreciate the context in which the tasks are written. Also, as the question specifically asked for which dates apply to which tax year, giving dates without allocating them to the right year will affect the marks that can be awarded.

Part (b), however, tended to be well answered.

Section 2

Task 2.1

This is a staple task in this section and generally, with one major exception, it was answered well by the majority of students. The layouts used were appropriate and virtually 100% of candidates started correctly with the net profit of £288,120.

The major issue with the task was the handling of the lease payments for the car. There were two consistently wrong answers used by nearly all students – it was either totally ignored or the full £2,200 was added back. It would appear that this topic was not covered by students in their studies.

Task 2.2

Part disposal of assets tends to be rather poorly handled by students, but seems to have been solved in this paper. The vast majority gained full marks, although there was a tendency to deduct £9,600 from the net gain. In previous papers, the computation of the cost has been the issue, but at this sitting it was not.

Task 2.3

This was a straightforward task, similar to 1.2, in that, although it just brings together previous figures, it is a necessary stage before tackling the next task. In the main, it was well handled.

Task 2.4

Computationally, this was the most complex task of the whole paper. One of the biggest issues was students not understanding how best to lay out their answer. As their own workings were confusingly written, so they seemed to struggle with how to use these workings. Logically splitting all the necessary figures was needed in the first instance and then pulling together those figures followed.

Unfortunately, many students failed to realise that the accounting period straddled 31 March, with different rates applying pre and post this date. Unlike income tax, which applies the rates applicable in the tax year in which the accounting period ends, corporation tax needs to apply the rates as applicable for the period in which the months fall. Hence, the period 1 January 2008 to 31 March 2008 falls in the finance year 2007, and the period 1 April 2008 to 31 December 2008 falls in the finance year 2008.

As ever, there were the usual errors of deducting the dividends from the PCTCT, or calculating SCMR and deducting that from the PCTCT, then applying the tax rate. However, these tended to come from the weaker students who also failed to demonstrate ability in other tasks.

Task 2.5

As with task 1.5, this task was not well handled. Many students seemed confused over the penalties that would apply to a sole trader or limited company, and gave the answer as if the former. A common wrong answer would be: 'The tax return would be due, in paper form, on 31 October 2008 and in electronic form, on 31 January 2009. Therefore, the tax return is 5 months late and so there will be a penalty of £200'. There would be part credit for the £200, but nothing else.

Students must cover this topic in depth and fully appreciate the implications of late returns and late payments. Not only must they learn the rules, they must be able to apply those rules to the question in hand to provide clients with concrete, direct advice and not vague, general answers that could be given to anyone in any situation. Markers are looking for the answer that applies to the given task and students must develop this skill.

Support book Part 2

Questions

Source:

2003/2006 standards exam; December 2009 sitting

Contents:

Unit 18: Business Tax Computations (BTC)

AAT Level 4 Technician Pathway (2003/2006 standards)

Tuesday 1 December 2009 (morning)

Time allowed - **3 hours** plus 15 minutes' reading time

Please complete the following information in **BLOCK CAPITALS**:

This exam paper is in **TWO** sections.

You must show competence in **BOTH** sections. So, try to complete **EVERY** task in **BOTH** sections.

Section 1 contains 6 tasks and Section 2 contains 5 tasks.

You should spend about 80 minutes on Section 1 and 100 minutes on Section 2.

There is blank space for your workings on pages 21-23, but you should include all workings and essential calculations in your answers.

Taxation tables for business tax – 2008/09

Capital allowances

Annual investment allowance	£50,000
Writing down allowance – Plant and machinery	20%
First year allowance – Low emission cars	100%
Energy efficient and water saving plant	100%

Capital gains

Entrepreneurs' relief Lifetime limit	£1,000,000
Relieving fraction	4/9
Annual exemption	£9,600
Tax rate	18%
Indexation allowance: August 2000 to November 2008	0.279

National insurance rates

Class 2 contributions: Small earnings exemption	£2.30 per week £4,825 p.a.
Class 4 contributions: Main rate	8%
Additional rate	1%
Lower earnings limit	£5,435
Upper earnings limit	£40,040

Corporation tax

Financial year	2008	2007
Small companies rate	21%	20%
Marginal relief: Lower limit	300,000	300,000
Upper limit	1,500,000	1,500,000
Marginal relief fraction	7/400	1/40
Full rate	28%	30%

Formula: $\text{Fraction} \times (M - P) \times I/P$

Section 1

You should spend about 80 minutes on this section.

Against each task is the recommended time for that task, but please note that these times are guidelines only.

Data

You work in the tax department of a firm of chartered accountants.

Businessman Mr Zhang has been a client of the firm for many years, making up his company's accounts to 30 April each year. His business ceased trading on 31 January 2009, and the accounts department has provided you with the following details:

1. **Profit and loss account for the nine-month period 31 January 2009**

	£	£
Turnover		1,210,210
Cost of sales		<u>808,480</u>
Gross profit		401,730
Wages and salaries	125,778	
Rent, rates and insurance	59,221	
Repairs to plant	8,215	
Advertising and entertaining	19,077	
Accountancy and legal costs	5,710	
Motor expenses	53,018	
Telephone and office costs	14,017	
Depreciation	28,019	
Other expenses	<u>92,460</u>	<u>405,515</u>
Loss		<u>(3,785)</u>

2. Wages and salaries include:

Mr Zhang	30,000
Mr Zhang's wife, who works in the marketing department	18,000

3. Advertising and entertaining includes:

Gifts to customers:	
Bottles of wine costing £15 each	2,250
Diaries carrying the business's logo, costing £10 each	400
Staff Christmas party for 20 employees	1,485

4. Motor expenses include:

Delivery vans	10,403
Sales Manager's car	6,915
Mr Zhang's car, total expense (70% business usage)	5,700

5. Other expenses include:

Cost of staff training	3,550
Subscription to a trade association	220

Data continues over the page

6. The written down values of the pools on 1 May 2008 for capital allowance purposes are:

	£
General pool	19,450
Mr Zhang's car (30% private usage)	8,080
Sales Manager's car (no private usage)	10,400

On 31 January 2009, the proceeds or market value for each pool were:

General pool – proceeds	11,803
Mr Zhang's car – market value	9,750
Sales Manager's car – proceeds	7,000

7. Information from the previous tax years show that the net trading taxable profits were:

Year ended 30 April 2007	50,000
Year ended 30 April 2008	30,000

8. Mr Zhang has overlap profits of £8,316 from when he commenced trading.

9. In February 2009, Mr Zhang sold what was left of his business to a rival company. This was mainly the goodwill, relating to his customer base. The capital gain from this sale was £400,000.

Task 1.5 (10 minutes)

- (a) Calculate the net capital gain arising from the sale of Mr Zhang's business. You do not need to calculate the tax payable.

- (b) State the date that the tax liability arising from this sale would be payable.

Task 1.6 (25 minutes)

As far as possible, complete the tax return for Mr Zhang's business on pages 10-12.

Section 2

You should spend about 100 minutes on this section.

Against each task is the recommended time for that task, but please note that these times are guidelines only.

Data

You work in the tax department of a manufacturing company trading as Toner Ltd.

The following information is available for the year ended 31 March 2009.

1. The adjusted trading profits, before capital allowances, have been calculated at £2,951,100.

2. Fixed asset information:

Balances brought forward as at 1 April 2008:

	£
General pool:	265,400
Managing Director's car (BMW) – 70% private usage	18,705
Finance Director's car	13,600

Additions:

Machinery	32,230
Energy saving plant	13,900
Office furniture	22,405
Managing Director's car (Ford)	32,100

Disposals:

Machinery	11,250
Managing Director's car (BMW)	15,400

3. In November 2008, Toner Ltd sold a picture for £12,000. This was bought for £4,000 in August 2000.

Data

You have received the following email from the Managing Director of Toner Ltd.

From: James.Toner@toner.com
To: AATstudent@toner.com
Sent: 27 November 2009
Subject: Losses

I am really pleased with the profit we made for the year ended 31 March 2009. However, we are eight months into the new financial year, and the general economic downturn seems to have badly affected our company.

Our budget for the next three years shows the following:

	Y/e 31/03/10	Y/e 31/03/11	Y/e 31/03/12
	£	£	£
Trading profit / (loss)	500,000	(750,000)	200,000
Chargeable gain / (loss)	10,000	12,000	(15,000)

I am hoping that you can provide some information on the various options we have regarding these losses.

James

Model Answers

December 2009

Note:

The model answers may, in parts, be longer than would be expected of candidates in the exam. The fuller version is given for teaching purposes.

Section 1

Task 1.1

	General pool	Car (30%)	Car	Total
	£	£	£	£
WDV b/f	19,450	8,080	10,400	
Proceeds / Market value	<u>11,803</u>	<u>9,750</u>	<u>7,000</u>	
Balancing allowance	<u>7,647</u>		<u>3,400</u>	11,047
Balancing charge		<u>1,670</u>		<u>(1,169)</u>
Total allowances				<u>9,878</u>

Task 1.2

Net loss		£	£
Add:			(3,785)
Depreciation		28,019	
Mr Zhang's salary		30,000	
Gifts to customers		2,250	
Motor expenses for Mr Zhang's car - £5,700 x 30%		<u>1,710</u>	<u>61,979</u>
			<u>58,194</u>
Less:			
Capital allowances			<u>9,878</u>
Adjusted trading profits			<u>48,316</u>

Task 1.3

Profits for year ended 30 April 2008	£
Profits for period ended 31 January 2009	30,000
	<u>48,316</u>
	78,316
Less: Overlap profits	<u>8,316</u>
Taxable profits	<u>70,000</u>

Task 1.4

Class 2:	£2.30 x 52	£
		119.60
Class 4:	(£40,040 – £5,435) x 8%	2,768.40
	(£70,000 – £40,040) x 1%	<u>299.60</u>
Total NIC		<u>3,187.60</u>

Task 1.5

Gain from sale	£
400,000 x 4/9	400,000
	<u>177,778</u>
Gain	<u>222,222</u>

Date payable: 31 January 2010

Task 1.6

Box 7	31/01/09		
Box 14	£1,210,210		
Box 16	£808,480		
Box 18	£125,778	Box 33	£30,000
Box 19	£53,018	Box 34	£1,710
Box 20	£59,221		
Box 21	£8,215		
Box 22	£14,017		
Box 23	£19,077	Box 38	£2,250
Box 27	£5,710		
Box 28	£28,019	Box 43	28,019
Box 29	£92,460		
Box 30	£1,213,995	Box 45	£61,979
Box 47	£3,785		
Box 54	£9,878		
Box 55	£9,878		
Box 59	£61,979		
Box 61	£9,878		
Box 62	£48,316		

Section 2

Task 2.1

	£	General Pool £	MD's car £	FD's car £	Total £
WDV b/f		265,400	18,705	13,600	
Disposal			15,400		
Balancing allowance			<u>3,305</u>		3,305
Non-AIA additions:					
Managing Director's car			32,100		
AIA additions:					
Machinery	32,230				
Furniture	<u>22,405</u>				
	54,635				
AIA	<u>50,000</u>	<u>4,635</u>			50,000
		270,035			
Disposals		<u>11,250</u>			
		258,785			
WDA 20%		<u>51,757</u>			51,757
WDA – 20% / £3,000			<u>3,000</u>		3,000
WDA – 20% / £3,000				<u>2,720</u>	2,720
FYA additions:					
Plant	13,900				
100%	<u>13,900</u>				<u>13,900</u>
Total allowances					<u>124,682</u>
Balance c/f		<u>207,028</u>	<u>29,100</u>	<u>10,880</u>	

Task 2.2

	£
Proceeds	12,000
Cost	<u>4,000</u>
	8,000
IA £4,000 x 0.279	<u>1,116</u>
Gain	<u>6,884</u>
Restricted to – $\frac{5}{3} \times (12,000 - 6,000) =$	10,000

Task 2.3

	£
Adjusted profit	2,951,100
Less:	
Capital allowances	<u>124,682</u>
Adjusted trading profit	2,826,418
Chargeable gain	<u>6,884</u>
PCTCT	<u>2,833,302</u>

Task 2.4

£

(a)
£2,833,302 x 28%

793,324.56

(b)

Dates of payment: 14 October 2009; 14 January 2010; 14 April 2010; 14 July 2010

First three payments are based on estimates of the taxable profit for that year that will be revised as the accounting period progresses. The tax liability is a quarter of the total expected. Differences between revised estimates and original estimates will be added or deducted from the instalment.

Task 2.5

From: AATstudent@toner.com
To: James.Toner@toner.com
Sent: 1 December 2009
Subject: Losses

This is a very sad state of affairs, but I am sure we are not the only company badly affected by the economic situation. Fortunately, there is good news in the way that this loss can be handled for tax purposes.

There are three ways in which a company can relieve trade losses:

- by carrying forward against trading profits in future periods
- by setting off against any other profits made in the year of the loss
- by setting off against any profits made in the preceding 12 months

As we are not expecting the profits in 2012 to be able to fully relieve the 2011 loss, my recommendation would be that we would carry back the loss against 2010. £200,000 can then be relieved against 2012, leaving a further £50,000 loss to carry forward.

The reason for doing this is twofold: we will be able to get a tax rebate for 2010, which will improve our cash flow. Given our projected financial position at this time, this would be advantageous.

The situation for the chargeable loss is different. Such losses can only be carried forward to be relieved against future chargeable gains.

I hope this information is useful.

AAT student

Chief Assessor's report

The logo for the Accounting Association of Teachers (AAT) is displayed in white lowercase letters on a black rectangular background.

AAT Accounting Qualification
NVQ/SVQ
Level 4
Preparing Business Taxation
Computations (BTC)
2003 Standards

AAT Accounting Qualification
Diploma pathway
Diploma level
Preparing Business Taxation
Computations (BTC)
2003 Standards

June 2009

General comments

This paper is the first one to cover the changes made to some aspects of the Standards in the 2008 Finance Act. As such, if a student did not fully prepare for the new rules, then they could struggle on some of the tasks that specifically targeted these changes.

As usual, Section 1 covered the aspects of a sole trader, and Section 2 covered taxation aspects of a limited company. There should have been no surprises in the paper to a well prepared student, especially as a detailed article has been written about the impact of these changes and several notices placed in both the *Accounting Technician* magazine and on the AAT website. Despite this, there was evidence that some students had failed to fully grasp the new rules, and this must be avoided for the December 2009 paper.

Section 1

Task 1.1

Capital allowances have seen quite a drastic change in the tax rules and the majority of these rules were tested in this task. Many students performed well, clearly appreciating that this topic would be assessed in this paper.

The key to success in this task is the appreciation of the order of events that need to be placed in the computation, and what attracts annual investment allowance (AIA), and what does not. Following a logical structure and layout is vital in order to avoid confusion over which items attract what allowances.

Most students understood that the water saving plant attracted 100% first year allowance, and not AIA, and that Emily's car did not automatically attract £3,000 written down allowance. Having one car at a cost below £15,000 and one car at a cost above £15,000 was deliberately incorporated into the question to ensure that candidates demonstrated full understanding of the impact of the change of WDA to 20%.

Generally, this was all well handled.

Tasks 1.2

This was a very straightforward task, requiring students only to adjust the given profits for the capital allowances computed in task 1.1.

Whilst straightforward, this task was vital in preparation for the next task.

Task 1.3

Given how well students coped with task 1.1, it was to be hoped that they had covered the whole syllabus in full. This is clearly not the case and it was a rare student who gained full marks for this task.

Given that apportionment of profits for partners was examined in June 2008 and the comment was made then on the poor quality of answers, it was hoped that students and tutors had noted this and covered this area thoroughly. This is clearly not the case. As in June 2008, the main area of confusion is over the treatment of the salary for Emily. Students must understand how to tackle partnership accounts – the principles are the same as assessed in the FRA paper, yet they seem incapable of transferring that knowledge to the taxation issues.

The most common error made was:

	£	
Trading profits	125,728	(or student equivalent)
Salary	<u>10,000</u>	
	115,728	
6 months to Emily	<u>57,864</u>	
Balance – ½ to Emily	28,932	
Balance – ½ to Ismail	<u>28,932</u>	
	<u>57,864</u>	

The problem with this is that Emily only started receiving the salary once the partnership was formed on 1 October 2008. If you compare the above answer to the correct one, you will see that Emily received:

	£
Correct answer	99,296
As above, including £10,000 salary	<u>96,796</u>
Difference	<u>2,500</u>

It is therefore vital that students fully appreciate how to handle appropriation of profits for partnerships.

Task 1.4

This task covered the other major change to the tax rules, being the introduction of a relief for capital gains, entrepreneur's relief. Generally, this task was well handled, and it appeared that students were prepared for a complex computational question.

Traditionally, students do not like discursive tasks, but this one was well answered, with students taking time to structure their answers logically and sensibly.

Task 1.5

As with task 1.3, the answers to these types of questions tend to be poorly answered, and this task was no exception. Students tended to repeat rote learnt answers, stating 31 January and 31 July, but failing to put these dates into context.

Far too many students stated that there would be three payment dates for 2008/09, the payments on account being based on his tax liability for 2007/08. As Ismail only started trading in the partnership on 1 October 2008, it is clear that students are not applying logic to their answers; they are not reading the data carefully to appreciate the context in which the tasks are written. Also, as the question specifically asked for which dates apply to which tax year, giving dates without allocating them to the right year will affect the marks that can be awarded.

Part (b), however, tended to be well answered.

Section 2

Task 2.1

This is a staple task in this section and generally, with one major exception, it was answered well by the majority of students. The layouts used were appropriate and virtually 100% of candidates started correctly with the net profit of £288,120.

The major issue with the task was the handling of the lease payments for the car. There were two consistently wrong answers used by nearly all students – it was either totally ignored or the full £2,200 was added back. It would appear that this topic was not covered by students in their studies.

Task 2.2

Part disposal of assets tends to be rather poorly handled by students, but seems to have been solved in this paper. The vast majority gained full marks, although there was a tendency to deduct £9,600 from the net gain. In previous papers, the computation of the cost has been the issue, but at this sitting it was not.

Task 2.3

This was a straightforward task, similar to 1.2, in that, although it just brings together previous figures, it is a necessary stage before tackling the next task. In the main, it was well handled.

Task 2.4

Computationally, this was the most complex task of the whole paper. One of the biggest issues was students not understanding how best to lay out their answer. As their own workings were confusingly written, so they seemed to struggle with how to use these workings. Logically splitting all the necessary figures was needed in the first instance and then pulling together those figures followed.

Unfortunately, many students failed to realise that the accounting period straddled 31 March, with different rates applying pre and post this date. Unlike income tax, which applies the rates applicable in the tax year in which the accounting period ends, corporation tax needs to apply the rates as applicable for the period in which the months fall. Hence, the period 1 January 2008 to 31 March 2008 falls in the finance year 2007, and the period 1 April 2008 to 31 December 2008 falls in the finance year 2008.

As ever, there were the usual errors of deducting the dividends from the PCTCT, or calculating SCMR and deducting that from the PCTCT, then applying the tax rate. However, these tended to come from the weaker students who also failed to demonstrate ability in other tasks.

Task 2.5

As with task 1.5, this task was not well handled. Many students seemed confused over the penalties that would apply to a sole trader or limited company, and gave the answer as if the former. A common wrong answer would be: 'The tax return would be due, in paper form, on 31 October 2008 and in electronic form, on 31 January 2009. Therefore, the tax return is 5 months late and so there will be a penalty of £200'. There would be part credit for the £200, but nothing else.

Students must cover this topic in depth and fully appreciate the implications of late returns and late payments. Not only must they learn the rules, they must be able to apply those rules to the question in hand to provide clients with concrete, direct advice and not vague, general answers that could be given to anyone in any situation. Markers are looking for the answer that applies to the given task and students must develop this skill.