CIOT - ATT-CTA

Paper: **CTA Awareness**

Part/Module: **Module A**

Answer-to-Question-_1_

Basic tax point is the date when the job was complete. It may be overriden by (1) earlier payment or earlier invoice date or (2) invoice date if issued within 14 days after job completion.

(1) The tax point is 19 January as Mark received payment later

(2) Basic tax point is 3 February, but the inoice was raised within 14 days so the tax point is 10th February

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--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

(1) Land sale is VAT exempt (Schedule 9 VATA 1994)
(2) Freehold of commertial storage unit - standard rated
(3) Leasehold on warehouse is exempt unless option to tax was choosen by Sally

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--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Prompt payment discount will also reduce output VAT payable by the supplier and input VAT claimed by the customer. The supplier may provide the early payment discount by eather:

(1) raising a credit note when the disount is taken by the customer
(2) Usinf specific wording provided by HMRC on the original invoice in relation to the prompt payment discount.

If the discounted payment falls into the next VAT quarter, Karim should account for the difference in his next return.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Iuput VAT claimed in 2019: 78%*£80000 = £62,400

2022 adjustment: £80,000*(78%-76%)*1/10 = £160 payable
2022 sale adjustment: £80,000*(100%-78%)*6/10 = £10,560 recoverable

2022 total adjustment: £10,400 recoverable (input VAT)

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

(1) Beckly is able to deregister if she expects her turnover to fall below £83,000 p.a. She would need to make balancing payment in relation to the assets on her balance sheet (only assets for which input VAT was originally claimed) and submit final VAT ruturn to HMRC. Becky will be deregistered in 30 days after submittion the application.

(2) Becky will need to account for outbut VAT on the assets that are still on the balance sheet:

stock 20%*£4,900 = £980
computer and prod equipment: £14,000*20% = £2,800

Total: £3,780

There will be no charge to the computer, purchased from a non-registered trader as no input VAT was claimed initially.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

(1) Van

Sale proceeds (VAT inclusive): £6,120 - output VAT: 1/6 = £1,020

Input VAT: van purchase: £4,400*20% = £880

repairs: £600*1/6 = £100

(2) Car (assume Scott is using marginal shceme)

Output VAT: (£3,700 - £2,500)*1/6 = £200

Input VAT (repairs): £360*1/6 = £60

Total: Output VAT: £1,220

Input VAT: £1,040

VAT payable: £180

--------------ANSWER-6-ABOVE---------------

--------------ANSWER-7-BELOW---------------

Answer-to-Question-_7_

(1) Ponn Ltd cannot be included in the VAT group as 40% shareholding is not controlling interest

VAT group: Mino Ltd and Nyne Ltd

All intragroup transactions are ignored for VAT purposes

Output group VAT:

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Sales to 3-d parties: £440,000*20% = £88,000
                      £360,000*20% = £72,000

Sales to Ponn Ltd:    £28,000*20% = £5,600
                      £22,000*20% = £4,400

Total output VAT:     £170,000
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Disadvantages of group registration:

- both companies are liable for the VAT obligation
- information processing - it may be difficult to collect all information from both companies to prepare the return in time

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--------------ANSWER-7-ABOVE---------------

--------------ANSWER-8-BELOW---------------

Answer-to-Question-_8_

Flat rate sceme assumes that (1) no input VAT is claimed and (2) output VAT is calculated by aplying the rate to the total receipt. He should include a normal VAT rate on his invoice.

If Albert claimed input VAT on the machinery he should account standard rate 20% VAT when it is sold.

Output VAT:

Standard rated goods:
£18,500 + VAT = £22,200 -> VAT payable @12.5% = £2,750

Zero rated goods: £7,300 -> VAT payable @12.5% = £912.5

Machiner: VAT payable @20% = £800

Total VAT payble: £4,462.5

No input VAT on flat rate scheme

--------------ANSWER-8-ABOVE---------------

--------------ANSWER-9-BELOW---------------

Answer-to-Question-_9_

HMRC may arrange assurance visits from time to time to inspect the trader's documents and premices

Assessment can be raised withing the latest of:

- 12 month after the visit by 10 March 2023
- within two years of the period end - by 30 June 2021

The date of ssessment should be withing 4 years after the period end

The asessment raised on 2 April 2022 was within permitted limits.

--------------ANSWER-9-ABOVE---------------

--------------ANSWER-10-BELOW--------------

Answer-to-Question-_10_

Bambi need to notify HMRC and register asap.

Bambi would need to pay output VAT on taxable sales made during the period from 1 March 2022. All sales during this period will be assumed VAT inclusive (output VAT payable 1/6 of taxable sales)

Bambi would not be able to recover input VAT in relation to missing pourchse invoices.

Bambi will also have to pay penalties:

Assuming registration delay was non-deliberate and not consealed and was unprompted, the penalty would be from 0% (is registered withing 12 month by 01 March 2023) to 30%

--------------ANSWER-10-ABOVE--------------

--------------ANSWER-11-BELOW--------------

Answer-to-Question-_11_

(1) 500 new shares issued - no stamp required for new issues of shares#
(2) Gift at no considetation - no stamp required if consideration is below £1,000
(3) Transfers on divorce at no consideration - no stamp required

None of the above documents require a stamp and no stamp duty is payable.

If a document requires a stamp and was not stampt it cannot be used in legal proceeding.

--------------ANSWER-11-ABOVE--------------

--------------ANSWER-12-BELOW--------------

Answer-to-Question-_12_

SDLT is payable on purchase.

Larl is replacing his main residence, so no additional 3% is payable on his new residence.

The purchase of 8 houses from a propety developer falls under Multiple Dwellings Relief

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--------------ANSWER-12-ABOVE--------------

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Part/Module: **Module C**

--------------ANSWER-25-BELOW--------------

Answer-to-Question-_25_

Ayport Ltd accounting peiod starts 01 Feb 2021 to 30 April 2022 (15 month). The company needs to file two tax returns:

- for the period 01 February 2021 - 31 January 2022 (12 month)
- for the period 01 February 2022 - 30 April 2022 (3 month)

For each return the filing deadline is 12 month after the period end: 31 Jan 2023 and 30 Apr 2023 correspondingly

The tax payment is due by 9 month and 1 day from the end of each period. Profits should be apportioned.

--------------ANSWER-25-ABOVE--------------

--------------ANSWER-26-BELOW--------------

Answer-to-Question-_26_

Profit before tax: £480,000

Add back:

Finance lease interest £300
Finance lease depreciation £7,500

Operation lease cost
(excl maintenance)*15%
for private use £414

Pension contributions
paid after the year end £1,400

Adjusted trading profit: £489,614

--------------ANSWER-26-ABOVE--------------

--------------ANSWER-27-BELOW--------------

Answer-to-Question-_27_

	FYA 100%	FYA 50%	AIA	Main pool	SR pool	Total
Balance b/f				145,000	50,000	
New car zero emission	18,000					
New car 60g		32,000				
Second hand Van 20g			13,000			
Old car disposal					(4,000)	
WDA @18%				(26,100)	(2760)	£26,100
WDA @6%						£2,760
BAlanses c/f				118,900	43,240	

Total capital allowance: £18,000 + 50%*£32,000 + £13,000 + £26,100 + £2,760 = £75,860

--------------ANSWER-27-ABOVE--------------

--------------ANSWER-28-BELOW--------------

Answer-to-Question-_28_

BUilding cost: £600,000

<u>YE 31 March 2021:</u>

From the date the company began use in trade 01 Oct 2020 - 6 month

SBA: 3%*6/12*£600,000 = £9,000

<u>YE 31 March 2022:</u>

SBA: 3%*£600,000 = £18,000

Assune the building was used for business purposes

--------------ANSWER-28-ABOVE--------------

--------------ANSWER-29-BELOW--------------

Answer-to-Question-_29_

Corporation tax charge: £200,000*19% = £38,000
S.455 tax repayable: (£7,800)

S.455 tax payaple (Mr Way) @32.5% £40,000*32.5% = £12,800

Tax liability: £43,000

The amount of £24,000 will apppear on Mr Park's personal tax self asessment

Mr Way repaid only £10,000 so s455. tax is payable on the minimum of

- £50,000 outstanding at the YE

- £40,000 outstanding 9 month after the YE

--------------ANSWER-29-ABOVE--------------

--------------ANSWER-30-BELOW--------------

Answer-to-Question-_30_

Large companies can claim R&D expenditure credit - 13% of qualifying expenditure: RDEC = 13%*(56000+12000+18000)=£76,700

RDEC will increase trading profit:

Trading profit: £12,000,000+ £76,700 = £12,076,700

Corporation tax liability: £2,294,573

Less RDEC: (£76,700)

Corporate tax payable: £2,217,873

--------------ANSWER-30-ABOVE--------------

--------------ANSWER-31-BELOW--------------

Answer-to-Question-_31_

Chachester Ltd ceases to trade and therefore cau use terminal loss relief. It can cary back the trading loss from it's final accounting peiod (6 month) back agaist total profits of the 36 month ending before the loss making period. Also a proportion of YE 30.096.2021 falling withing last 12 month can be carried back 36 month beffore the loss making period

	YE30.09.2018	YE 30.09.2019	YE 30.09.2020	YE30.09.2021	YE31.03.2022
Trading profit	16000	22000	12000	6000	(53000)
UK property			3600		
Chargeable gain			8000	(2000)	
Charitable donations		lost			
Terminal loss relief	(3400)	(22000)	(23600)	(4000)	

12 month from ceased trading - 31 March 2021

36 month before 12 month period - 31 March 2018

Max loss carried back to YE 30.09.2018 = min (£3400; 6/12*16000)=£3400

--------------ANSWER-31-ABOVE--------------

--------------ANSWER-32-BELOW--------------

Answer-to-Question-_32_

Sale proceeds: £325,000 - £10,000 = £315,000

Cost: £300,000
minus rolled over relief £45,000

Plus
Expenditure on extension (capitalised) £40,000

Base cost: £295,000

Gain on disposal: £315,000 - £295,000 = £20,000

--------------ANSWER-32-ABOVE--------------

--------------ANSWER-33-BELOW--------------

Answer-to-Question-_33_

Gatesheas has more than 75% in Fawdon so Fawdon is eligible for group relief.

Loss available for group reliem is the lower of (1) Current period qualifying losses and (2) available taxable profits of the claimant company

Overseas property losses do not qalify for the group relief so only (1) trading losses of £20,000 and excess Charitable dobnations of £4000 are awailable for group relied.

--------------ANSWER-33-ABOVE--------------

--------------ANSWER-34-BELOW--------------

Answer-to-Question-_34_

Building transfer: no gain no loss transfer withing the group. Cost of building remain £150,000. Degrouping charge will arise if Hadrian Ltd leaves the group in less than 6 years and will still own the asset.

Degrouping charge is taxed to transferee (Hadrian Ltd):

Market value on transfer: £275,000
Base cost: £150,000

Chargible gain: £125,000

A chargeble gain on the sale of sharew will arise for Fellgate Ltd

Sale proceeds £2,000,000
Total indexed cost: (£400,000)

Chargeble gain: £1,600,000

--------------ANSWER-34-ABOVE--------------

--------------ANSWER-35-BELOW--------------

Answer-to-Question-_35_

The company must compute the tax 19% on the controlled foreigh compay and disclose this in CTSA return

The company has £300,000 trading income so it does not fall uder low profit exemption (no more than £500k of wich no more than £50k is trading profit)

--------------ANSWER-35-ABOVE--------------

--------------ANSWER-36-BELOW--------------

Answer-to-Question-_36_

Interest payment to Mr Ilford

Tha company should withhold tax at basic rate (20%) from interest payment and pay to HMRC. This will reduce further personal tax liability for Mr Ilford. The compnay should account for groos interest for corporation tax purposes.

Interest payment to Roade Ltd

Considering Roade Ltd is a UK company, no tax should be withheld on interest payments.

--------------ANSWER-36-ABOVE--------------

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Part/Module: **Module E**

--------------ANSWER-49-BELOW--------------

Answer-to-Question-_49_

(1) Mickey should have notified HMRC within 6 month after the end of tax year in which he started trading - by 5 October 2021

(2) Considering the notification was not prompted and was done within 12 month from the due date:

min penalty - nil
max penalty - 30%

The late notification was not deliberate or consealed

--------------ANSWER-49-ABOVE--------------

--------------ANSWER-50-BELOW--------------

Answer-to-Question-_50_

(1) debt written off - allowable
(2) cost of repairs - allowable. Ray will include proceed from insurance company in the next year as other income

(3) Premium on grant of the lease - add back as it is a capital Item

(4) Rent premium payable is allowable expense - deduct £12,000

Trading profit: £93,000
Add back:

Lease premium: £10,000

Deduct:
Rent payable: (£12,000)

<u>Taxable trading profit: £91,000</u>

--------------ANSWER-50-ABOVE--------------

--------------ANSWER-51-BELOW--------------

Answer-to-Question-_51_

Volkswagen golf: No adjustment for private use by employee - it will appear on employee's P11D

Audi TT: Used by Abby so need to be adjusted for private use

--------------ANSWER-51-ABOVE--------------

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--------------ANSWER-52-BELOW--------------
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Answer-to-Question-_52_

Trading profit:	£67,000
Less patent royalty (gross up for withholdind tax 20%)	(£2,000)
Rental income:	£15,000
Total:	£80,000
Personal allowance:	£12,570
Taxable income:	£67,430
<u>Personal tax:</u>	
£37,700 @20%	£7,540
£29,730 @40%	£11,892
<u>Total tax payable:</u>	<u>£19,432</u>

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--------------ANSWER-52-ABOVE--------------
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--------------ANSWER-53-BELOW--------------

Answer-to-Question-_53_

Based on the tradin loss allocation, Brendan has no taxable income in 2019/20 and in 2020/21 and therefore no NIC payable in these years (below Lowe earnings limit)

<u>For the tax year 2021/22:</u>

Brendan os sole trader and his income is subject to Class 2 and Calss 4 NIC

Class 2:

£3.05pw*52weeks = £158.6

Class 4:

0%*£9,568 =
9%*(£50,270-£9,568) = £3,663.18
2%*(£115,000-50,270) = £1,294.6

Total Clas 4 NIC: £4,957.78

Brendan should have carried forward the trading losses to 2021/22 instead of calimin carry back to 2019/20 as he is high income taxpayer in 2021/22 and also partially lost his personla allowance.

--------------ANSWER-53-ABOVE--------------

--------------ANSWER-54-BELOW--------------

Answer-to-Question-_54_

First year:

01.11.2019 - 31.03.2020: trading profit = 5/12*£22,500 = £9,375

Second year:

01.02.2020 - 31.01.2021: Trading profit = £22,500

third year:

01/02/2021 - 31/01/2022: Trading profit = £19,500

Overlap profit:

2 month: 2/12*£22,500 = £3,750

--------------ANSWER-54-ABOVE--------------

--------------ANSWER-55-BELOW--------------

Answer-to-Question-_55_

Warehouse cost: £450,000

(1) SBA: 01.02.2021 - 01.12.2021 (10 month)

3%*10/12*£450,000 = £11,250 - to be included in YE 31.12.2021

(2) The buyer will continue to account for SBA for the next 33 1/3 years minus 10 month.

Avi will have capital gain:

Land sale £180,000 - £150,000 = £30,000

Warehouse: £520,000 - £450,000 = £70,000

--------------ANSWER-55-ABOVE--------------

--------------ANSWER-56-BELOW--------------

Answer-to-Question-_56_

Trading loss in the year 2021/22 can be:

- allocated agaist current year profit (all or nothing)
- carried back to prior 12 month period against total profits (s64 claim) after current year claim (all or nothing)

- carried forward against trading profits (specified amount)

--------------ANSWER-56-ABOVE--------------

--------------ANSWER-57-BELOW--------------

Answer-to-Question-_57_

Traing loss: £120,000
Salary for Bridget: £60,000

Total loss: £180,000

<u>Bridget:</u>

Salary: £60,000
share of loss 2/10: (£36,000)
Total profit: £24,000

<u>Connor:</u>

share of loss 3/10: (£54,000)
Total loss: £54,000

<u>MAria:</u>

share of loss 5/10: (£90,000)
Total loss: £90,000

--------------ANSWER-57-ABOVE--------------

--------------ANSWER-58-BELOW--------------

Answer-to-Question-_58_

Capital gain tax is payable on the proceeds received in excess of original cost:

Freehold warehouse:

£30,000 - £20,000 = £10,000
Goodwill: £15,000

Total chargeble gain: £25,000

Other assents may be covered by business asset disposal relief. The base cost used by Mary when sold further should be original cost.

--------------ANSWER-58-ABOVE--------------

--------------ANSWER-59-BELOW--------------

Answer-to-Question-_59_
Sale of share in partnmership -> continues trade and there fore BADR applies unless the premices sold in 6 years.

--------------ANSWER-59-ABOVE--------------

--------------ANSWER-60-BELOW--------------

Answer-to-Question-_60_

Capital gains taxp payment date: 31 January 2022

Late payment more than 30 days - 5% penalty: £500

Interest is due @ 2.6% for the period 31 Jan - 14 March 2022

First year of trade -> Ncome tax payment deadline also 31 January 2022 (no installments)

Penalty 5% = £975