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#### **Association of Taxation Technicians**

# **Examination**

November 2007

### PAPER 3 - PART I

## BUSINESS TAXATION: HIGHER SKILLS

TIME ALLOWED – 3 HOURS (for Part I and Part II)

You are required to answer all questions in Part I and 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 between two and four marks as indicated in brackets.
- 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 of the space provided.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

On 31 December 2006, Maximus transferred his sole trader business to a limited company, Claudius Ltd. An indexed gain of £72,000 was realised on incorporation.

Maximus received cash of £40,000 and shares with a market value of £80,000 in consideration for his business. Maximus owned the business for one and a half years immediately prior to its incorporation.

Calculate:

 The gain after taper relief on the transfer assuming all reliefs are claimed.
 The base cost of Maximus' shares in Claudius Ltd.

z) met	ase cost of maximus share	s III Claudius Liu.	(2	2)
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2.	Donald works through his own limited company. He provides services under a contract which is caught by the anti-avoidance legislation IR35, as well as providing services to one-off clients.
	In the year ended 5 April 2007, Donald's limited company received the following income.
	From the contract deemed to be caught by IR35 $40,000$ From 'one off' jobs $20,000$ $\underline{£60,000}$
	Donald pays himself a salary of £10,000 on which employer's national insurance of £636 was paid.
	Calculate the deemed employment payment made to Donald on 5 April 2007. (3)

Fleur is a m trading profit	arket gardener who prepares as adjusted for tax purposes	s accounts to 30 September each year. Is have been:
	Year ended	£
	30 September 2003 30 September 2004 30 September 2005 30 September 2006	20,000 18,000 30,000 17,500
	leur's assessable trading p ns for averaging relief wher	rofits for 2003/04 to 2006/07 assuming sever possible.

3.

And	romeda, a telescope retailer, is VAT registered. In the quarter to 30 June 200 romeda raised sales invoices of £88,125 and received purchase invoices ,875. These amounts are inclusive of VAT.
	addition, equipment costing £2,000 (exclusive of VAT) was purchased and puter, which was purchased for Andromeda's son, was bought for £1,000 p
The	VAT creditor at 1 April 2007 was £4,250 which was paid on 29 April 2007.
You VA1	are required to reflect all entries in the VAT control account and compute to creditor at 30 June 2007.
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5.	Icarus Ltd has an accounting profit of £2 million. This is stated after depreciation of £100,000, legal fees of £10,000 (of which £5,000 is in respect of a capital transaction), dividends received from UK companies of £45,000 and business entertaining of £10,000. The company's capital allowances amount to £120,000.
	Produce an FRS19 reconciliation between the expected tax charge based on the accounting profit and the actual Corporation Tax charge. (4)

31 A	rey commenced trading on 1 June 2004 and produced a first set of accounts August 2005, which resulted in a profit of £15,000. The second set of accounts year to 31 August 2006 resulted in a profit of £20,000.
Sho prof	w the taxable trading profits for 2004/05 to 2006/07, together with the over its to be carried forward.

7.	State the condition that must be met for a VAT registered person to be eligible for voluntary deregistration.	r
	When will the deregistration take effect? (2	<u>'</u> )

8. Navigator Ltd prepares accounts to 31 March each year. The accounts to 31 March 2007 show a net profit of £125,000. The following items are included in these accounts. 1) Dividends received from a UK company of £5,000. Pension contributions of £15,000 of which £5,000 has been accrued at 31 March 2) Depreciation charges of £13,500. 3) Entertaining costs of £5,000 of which £2,500 relates to staff entertaining. 4) Salary payments of £43,000 of which £3,000 relate to bonus payments which will 5) be paid on 2 January 2008. Capital allowances in the period amounted to £15,000. Calculate the Schedule D Case I income for Navigator Ltd for the year ended 31 March 2007.

The lo	an was rep	oaid to the	company	on 10 Oc	tober 200	7.			
Expla entitle	in the Co ed to more	orporation than 5% o	Tax co of the ass	nsequencesets of Di	ces of the gital Ltd	ne Ioan ( on windin	assume g up).	Mr Da	al
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State how and when post cessation receipts are taxed.	


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13.	Vital Ltd draws up accounts to 31 March each year. The company had trading profits of $£400,000$ in the year to 31 March 2007.						
	Vital Ltd is part of a group of companies and has shareholdings in group companies as follows:						
	Vitax Ltd – UK trading company Vicom Ltd – UK trading company Vicall Ltd – UK dormant company Vitrois SARL – overseas trading company	- - -	75% shareholding 45% shareholding 51% shareholding 51% shareholding				
	You are required to state, with reasons, the number of associated companies of Vital Ltd for the year ended 31 March 2007. (3)						

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15.	State the account. reserves.	difference Also state	between a s the difference	share capita e between d	nd a share and non-dist	d a share premium nd non-distributable (2)		