AAT

AQ2016

Business Tax
(Finance Act 2019)

EXAM KIT

This Exam Kit supports study for the following AAT qualifications:
AAT Professional Diploma in Accounting – Level 4
AAT Level 4 Diploma in Business Skills
AAT Professional Diploma in Accounting at SCQF Level 8

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Features in this exam kit

In addition to providing a wide ranging bank of real assessment style questions, we have also included in this kit:

- unit specific information and advice on assessment technique
- our recommended approach to make your revision for this particular unit as effective as possible.

You will find a wealth of other resources to help you with your studies on the Kaplan and AAT websites:

www.mykaplan.co.uk

www.aat.org.uk/

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

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CURRENT TAX RELIEFS AND OTHER TAX ISSUES

SELF-ASSESSMENT

ANSWER ENHANCEMENTS

We have added the following enhancements to the answers in this exam kit:

Key answer tips

Some answers include key answer tips to help your understanding of each question.

Tutorial note

Some answers include tutorial notes to explain some of the technical points in more detail.

ASSESSMENT TECHNIQUE

- **Do not skip any of the material** in the syllabus.
- Read each question very carefully.
- **Double-check your answer** before committing yourself to it.
- Answer **every** question – if you do not know an answer to a multiple choice question or true/false question, you don't lose anything by guessing. Think carefully before you **guess**.
- If you are answering a multiple-choice question, **eliminate first those answers that you know are wrong**. Then choose the most appropriate answer from those that are left.
- **Don't panic** if you realise you've answered a question incorrectly. Getting one question wrong will not mean the difference between passing and failing.

Computer-based assessments – tips

- Do not attempt a CBA until you have **completed all study material** relating to it.
- On the AAT website there is a CBA demonstration. It is **ESSENTIAL** that you attempt this before your real CBA. You will become familiar with how to move around the CBA screens and the way that questions are formatted, increasing your confidence and speed in the actual assessment.
- Be sure you understand how to use the **software** before you start the assessment. If in doubt, ask the assessment centre staff to explain it to you.
- Questions are **displayed on the screen** and answers are entered using keyboard and mouse. At the end of the assessment, you are given a certificate showing the result you have achieved unless some manual marking is required for the assessment.
- In addition to the traditional multiple-choice question type, CBAs will also contain **other types of questions**, such as number entry questions, drag and drop, true/false, pick lists or drop down menus or hybrids of these.
- In some CBAs you may have to type in complete computations or written answers.
- You need to be sure you **know how to answer questions** of this type before you sit the real assessment, through practice.

UNIT SPECIFIC INFORMATION

THE ASSESSMENT

FORMAT OF THE ASSESSMENT

Students will be assessed by computer-based assessment.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

The learning outcomes for this unit are as follows:

	Learning outcome	Weighting
1	Complete tax returns for sole traders and partnerships and prepare supporting tax computations	29%
2	Prepare supporting tax computations for the tax return for limited companies	19%
3	Provide advice on the UK's tax regime and its impact on sole traders, partnerships and limited companies	15%
4	Advise business clients on tax reliefs, and their responsibilities and their agent's responsibilities in reporting taxation to HMRC	19%
5	Prepare tax computations for the sale of capital assets	18%
	Total	100%

Time allowed

2 hours

PASS MARK

The pass mark for all AAT CBAs is 70%.

Always keep your eye on the clock and make sure you attempt all questions!

DETAILED SYLLABUS

The detailed syllabus and study guide written by the AAT can be found at:

www.aat.org.uk/

REFERENCE MATERIAL

Reference material is provided in this assessment. During your assessment you will be able to access reference material through a series of clickable links on the right of every task. These will produce pop-up windows which can be moved or closed.

ASSESSMENT GUIDANCE

- Some questions ask that answers be calculated to the nearest £. Some answers may require learners to calculate to the nearest £ and pence. If the question does not give any instructions then either method is acceptable and the computer will accept both.
- Some questions have scroll bars at the side. It is important that learners scroll down and do not miss out parts of questions.
- Where free text written answers are required, learners are supplied with a box to type their answers. This scrolls down as far as is necessary to accommodate the learner's answer.
- It is very important to read questions carefully. Common errors which have occurred in the assessments are:

  (i) Not spotting when amounts are given monthly and not annually

  (ii) Misreading dates

  (iii) Being unable to work out the number of months in a period when time apportionment is required (e.g. for a partnership 'salary').
- Tasks involving basis period rules or loss relief rules are very badly answered.
- Capital allowance computations – this is a vital area. Tasks involving long or short periods or a cessation are often poorly answered.

TAX RATES AND ALLOWANCES

Throughout this exam kit:

1. **You should assume that the tax rates and allowances for the tax year 2019/20 and for the Financial Year to 31 March 2020 will continue to apply for the foreseeable future unless you are instructed otherwise.**
2. **Calculations and workings of tax liability should be made to the nearest penny.**
3. **All apportionments should be made to the nearest month.**

The tax rates and allowances below will be reproduced in the real assessment for business tax.

In addition, other specific information necessary for candidates to answer individual questions will be given as part of the question.

Taxation tables for business tax – 2019/20

Capital allowances

Annual investment allowance	
Prior to 1 January 2019	£200,000
From 1 January 2019	£1,000,000
Plant and machinery writing down allowance	
Long life assets and integral features	
Prior to 1 April 2019 (Companies) / 6 April 2019 (Individuals)	8%
From 1 April 2019 (Companies) / 6 April 2019 (Individuals)	6%
Other assets	18%
Motor cars	
CO_2 emissions up to 50 g/km	100%
CO_2 emissions between 51 and 110 g/km	18%
CO_2 emissions over 110 g/km – Prior to 1 April 2019 / 6 April 2019	8%
CO_2 emissions over 110 g/km – From 1 April 2019 / 6 April 2019	6%
Energy efficient and water saving plant	
First year allowance	100%

Capital gains

Annual exempt amount	£12,000
Standard rate	10%
Higher rate	20%
Entrepreneurs' relief rate	10%
Investors' relief rate	10%
Entrepreneurs' relief limit	£10,000,000
Investors' relief limit	£10,000,000

National Insurance rates

Class 2 contributions:	£3.00 per week
Small profits threshold	£6,365 p.a.
Class 4 contributions:	
Main rate	9%
Additional rate	2%
Lower earnings limit	£8,632
Upper earnings limit	£50,000

Trading allowance

This allowance is available to individuals only	£1,000

Corporation tax

Financial year	**2019**	**2018**
All profits and gains	19%	19%

TAX ADMINISTRATION

This is a useful summary. Much of the following information is given in the Business Tax reference material provided in your assessment.

Self-assessment – individuals

Election/claim	**Time limit**	**For 2019/20**
Pay days for income tax and class 4 NICs	1st instalment: 31 January in the tax year 2nd instalment: 31 July following the end of tax year Balancing payment: 31 January following the end of tax year	 31 January 2020 31 July 2020 31 January 2021
Pay day for class 2 NICs	31 January following the end of the tax year	31 January 2021
Pay day for CGT	31 January following the end of tax year	31 January 2021
Filing dates If return issued more than 3 months before the filing date If return issued less than 3 months before the filing date	 Paper return: 31 October following end of tax year Electronic return: 31 January following end of tax year 3 months from the date of issue of the return	 31 October 2020 31 January 2021
Retention of records – Business records – Personal records	 5 years from 31 January following end of the tax year 12 months from 31 January following end of the tax year	 31 January 2026 31 January 2022
HMRC right of repair	9 months from date the return was filed	
Taxpayer's right to amend a return	12 months from 31 January following end of the tax year	31 January 2022
Repayment relief claim	4 years following end of the tax year	5 April 2024
HMRC can open a compliance check	12 months from submission of the return	
Taxpayer's right of appeal against an assessment	30 days from the date of the assessment – appeal in writing	

Self-assessment – companies

Election/claim	**Time limit**
Pay day for companies which are not large	9 months and one day after the end of the accounting period
Pay day for large companies	Instalments due on 14th day of: – seventh, tenth, thirteenth, and sixteenth month **after the start** of the accounting period
Filing dates	Later of: – 12 months from the end of the accounting period – 3 months from the issue of a notice to deliver a corporation tax return
Companies repayment relief claim	4 years from the end of the accounting period
Retention of records	6 years from the end of the accounting period
HMRC can open a compliance check	12 months from submission of the return
Taxpayer's right of appeal against an assessment	30 days from the date of the assessment – appeal in writing

PENALTIES

Individuals and companies

Offence		**Penalty**
Incorrect return	% of revenue lost	
	(tax unpaid as a result of the error)	Maximum %
	Mistake	0
	Failure to take reasonable care	30
	Deliberate understatement	70
	Deliberate understatement with concealment	100
	Penalties can be reduced for taxpayer disclosure	

PENALTIES (CONT)

Offence		Penalty
Late notification	% of tax unpaid on 31 January following tax year end for individuals and 12 months after the end of the accounting period for companies Percentages as for incorrect returns Penalties can be reduced for taxpayer disclosure	
Failure to keep records	Per tax year or accounting period	£3,000

Individuals

Late payment of tax (cumulative)	% of tax unpaid on 31 January following tax year end More than 30 days late More than 6 months late More than 12 months late	 5% of tax overdue Further 5% of tax overdue Further 5% of tax overdue
Late filing (cumulative)	Filed after due date Filed more than three months late	£100 fixed penalty £10 per day for up to 90 days (max £900) in addition to fixed penalty
	Filed more than six months late	5% of tax due plus above penalties (min £300)
	More than 12 months late where withholding information was:	The penalties above plus additional:
	– not deliberate	5% of tax due (min £300)
	– deliberate but no concealment	70% tax due (min £300)
	– deliberate with concealment	100% tax due (min £300)

Companies

Late filing (cumulative)	Less than three months late Filed more than three months late	£100 fixed penalty £200 fixed penalty
	Filed more than six months late	10% of tax due per return
	More than 12 months late	20% of tax due per return

Penalties can be reduced if the taxpayer has a **reasonable excuse**

Section 1

PRACTICE QUESTIONS

INCOME TAX AND CORPORATION TAX

CAPITAL AND REVENUE EXPENDITURE

Key answer tips

Adjustment of profits and determining capital versus revenue expenditure are important areas and likely to be tested. Knowledge of what is treated as capital and what is not is often an area where learners slip up. It is important not to neglect learning facts such as these.

The Business Tax reference material provided in your assessment covers these topics in the sections headed 'Adjustment of profits – sole traders, partnerships and companies' and 'Unincorporated businesses – trading income'.

1 GILES

Giles incurred the following expenditure.

For each item of expenditure, tick the appropriate box to show whether the item is treated as revenue or capital expenditure.

	Revenue	**Capital**
Decorating an office		
Computer for a salesman		
Office building extension		
Electricity for the quarter to 31 March 2020		
Meal to entertain a customer from Germany		
Fork lift truck for the warehouse		

2 PHILIP

Philip incurred the following expenditure.

For each item of expenditure, tick the appropriate box to show whether the item is treated as revenue or capital expenditure.

	Revenue	Capital
Printer for the office computer		
Water rates		
Legal fees for purchase of a building		

3 BROWN

Brown incurred the following expenditure.

For each item of expenditure, tick the appropriate box to show whether the item is treated as revenue or capital expenditure.

	Revenue	Capital
Repairs to a boiler		
Insurance for motor cars		
Replacement of a severely damaged roof on a newly-purchased warehouse before being able to use the building		
Parking fine incurred by Brown		

4 BADGES OF TRADE

Read the following statements. Tick the appropriate box to show whether or not the individual is likely to be considered to be carrying on a trade.

	Carrying on a trade	Not carrying on a trade
Fred buys a painting in 2012 for £40,000 and hangs it in his home. In 2019 he sells the painting for £50,000 as he needs the cash to pay for a new house.		
Franz regularly buys items in charity shops and then sells them soon after on online auction sites for a higher price. He estimates that each week he has a cash profit of £250 from the sales.		
Each month Jason buys an old car and then repairs it prior to selling it at a profit. He has rented a lock up garage to carry out this work. He uses the money he receives from selling a car to buy the next car.		

ADJUSTMENT OF PROFITS

Key answer tips

Adjustment of profits questions may include a computation starting from the accounting profit where you will need to adjust for disallowed expenses. It is important to carefully read the question and consider each item to decide whether it is allowable or not.

5 JOSEPH FINN

Joseph Finn is self-employed and has a business making widgets.

The business has the following statement of profit or loss for the year ended 31 March 2020:

	£	£
Turnover		1,360,250
Less: Cost of sales		(776,780)
Gross profit		583,470
Wages and salaries	147,280	
Rent and rates	65,280	
Repairs	30,760	
Advertising and entertaining	27,630	
Accountancy and legal costs	16,260	
Motor expenses	38,000	
Leasing costs	8,000	
Telephone and office costs	15,200	
Depreciation	26,525	
Other expenses	101,265	
		(476,200)
Net profit		107,270

Additional information:

1 Repairs include:

	£
Redecorating Joseph's flat	10,000
Decorating business premises	12,000

2 Advertising and entertaining includes:

	£
Gifts to customers:	
Food hampers costing £25 each	1,050
Pens carrying the business's logo, costing £5 each	400
Sponsorship of local charity fete	5,300

3 Motor expenses comprise the running costs of:

	£
Delivery vans	22,000
Sales representative's car	10,000
Joseph's car which is 50% used for private mileage	6,000

4 Leasing costs of £8,000 are for the sales representative's car which has CO2 emissions of 135 g/km.

5 Other expenses include:

	£
Donation to Children in Need (a national charity)	500
Health and Safety Fine	400

6 Capital allowances have already been calculated at £21,070.

Calculate Joseph Finn's tax adjusted trading profits for the year ended 31 March 2020 using the following pro forma.

Where an item does not require adjustment insert a 0. Where an item is to be deducted from net profit, include it in brackets.

	£	£
Net profit		107,270
Wages and salaries		
Rent and rates		
Repairs		
Advertising and entertaining		
Accountancy and legal costs		
Motor expenses		
Leasing costs		
Telephone and office costs		
Depreciation		
Other expenses		
Capital allowances		
Adjusted net profit		