

CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 3**

Part/Module: **Part 1**

Answer-to-Question-_1_

Question 1

Flat Rate Scheme

Louis is able to join the cheme if there are reasonable grounds to believe that taxable turnover in the next year will be £150 000 or less - granted that his turnover is £74 400, this is a reasonable assumption.

If his tax inclusive turnover exceeds £230 000, he needs to leave the scheme unless this is a one-off transaction.

Using the flat rate scheme, HMRC have the estimated percentage of VAT due compared to the VAT inclusicie turnover for different types of business - in this case 14.%. Once Louis has established the percentage, this is applied to tax inclusive turnover to arrive at the amount of VAT due.

Input tax is generally not deductible.

<u>Debit</u>	14 400 turnover
<u>Credit</u>	2 088 VAT control acc
<u>Credit</u>	12 212 creditors
Debit	12 212 turnover
Debit	2 088 VAT control acc
Credit	14 400 debtors

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

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

Answer-to-Question- _2_

Question 2

1) Standard rated supplies taxation will depend on whether they are a B2B or B2C transaction.

B2B- Goods will be treated as being supplied in Canada i.e. the country in which the recipient belongs.

B2C - Goods will be trated as being supplied in the country in which the supplier belongs i.e. the UK if the recipient is not a business.

The general rule is overridden in a number of circumstances such as those relating to lang and transport.

2) When a UK business buys a service from a non-EU supplier such as one in China, they will have a reverse charge obligation in which the UK customer adds the appropriate output tax to their own VAT return and can recover that amount as input tax from HMRC. This is provided that evidence is held such as the C79 import VAT certificate.

3) The reverse charge will also apply in relation to services, therefore as above however as the supplies of services relate to finance i,e, accountancy advice in relation to international expansion would be seen as exempt. So no input tax can be claimed.

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

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

Answer-to-Question-_3_

Question 3

Deregistration would allow Jacinta to deregister for VAT:

Compulsary deregistration would occur where a business is sold or ceases to make taxable supplies therefore applicable if Jacinta decides to sell her business on the 1 February 2021.

Voluntary Deregistration would be available to Jacinta if her taxable supplies are expected to be below the deregistration threshold, this is currently £83 000 meaning Jacinta could deregister. She would be able to deregister from the date her sales are below £81 000 so 31 March 2021?

When deregistering Jacinta must consider any VAT on goods still at hand which must be accounted for on the final VAT return, unless VAT is less than £1 000.

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

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

Answer-to-Question- _4_

Question 4

CSOP

Specified employees are able to be rewarded under the Company Share Option Plan - not an all employee plan.

Employees and directors with more than 30% of shares in a close company cannot participate.

The maximum value of shares over which options can be held is £30 000.

CSOP options cannot be granted at a discount.

JAGO : $5 \times 6\,400 = 32\,000$ exceeds the total limit. plus the options are granted at a discount, this is not permitted therefore Jago would be entitled to a maximum of 6 000 options at zero discount.

ROSIE: is not able to participate in this scheme as she is a part time employee who only works 21 hours p/w/ , under the 25 hours p/w minimum.

DAVETH: Can only participate fully to the extent that he does not exercise the options he currently has. If he chooses to exercise the share options over £10 000 then he will only be entitled to £20 000 worth of CSOP options i.e. $5 \times 4\,000$.

CARINA : is a part time employee therefore won't be able to participate in the scheme at all.

No income tax on the date of grant, no income tax or NIC on the date of exercise unless options have been disqualified. All gains subject to CGT on sale.

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

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

Answer-to-Question-_5_

Question 5

Personal allowance	12 500	(no need to adjust as <100k)
less cash equivalent of non-cash emp. benefits	(500)	
less adjustment for underpaid tax (100/20 x 250)	(1 250)	
	<u>10 750</u>	

PAYE CODE - L1075

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

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

Answer-to-Question-_6_

Question 6

CIS

Neil is verified and registered. 20% deduction withheld from the VAT exclusive amount.

materials are not withheld at 20%

Labour 500 - 100 =

Amount paid to Neil = **£400**

Amount paid to HMRC = **£100**

must report and pay on 19th of each month ie. March 2020 or 22nd if electronically (for payment only) via CIS 300 return form.

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

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

Answer-to-Question-_7_

Question 7

Output tax 13 000

Input tax

Purchase of stock - 2 000
(12k / 6)

Client entertaining blocked for input VAT

Telephone bill

1 044 @ 70%

(731 / 6) 122

private use element not allowed for input VAT

Total input VAT 2 122

**13 000 - 2 122 = £10 878 VAT payable for quarter ended
31/12/19**

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

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

Answer-to-Question-_8_

Question 8

Married Women's Reduced Rate NIC certificate means that Gwen is able to have a valid reduced rate election at 5.85% of NIC instead of the standard 12%.

$55\ 000 / 12 = \text{£}4\ 584$ will be Gwen's monthly salary

$4\ 584 - 4\ 167 = 687 @ 2\% = 14$

$4\ 166 - 719 = @ 5.85\% = 202$

Total monthly Class 1 priamry NIC savings = 216 (£2 592 per annum)

There would be no change to the 13.8% Class 1 secondary employer's NIC

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

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

Answer-to-Question- 9_

Question 9

Chris is 25

Annual salary of £20 000

Pension contributions are a tax free benefit.

All employers have to offer most of their workers a workplace pension under which both the employee and employer contribute. If an employee actively chooses to opt out of the workplace pension, he will lose the benefit of employer contributions.

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

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

Answer-to-Question-_10_

Question 10

DIRECTOR NIC so calculated on a cumulative basis. No need to apportion the thresholds as director not newly appointed.

2019/20

Month 1 - April

5 000 - 8 632 = nil

Month 2 - May

10 000 - 8 632 = 1 368 @ 12% = £164

Month 3 - June

15 000 + 40 000 = 55 000

55 000 - 50 000 = 5 000 @ 2% = £100

50 000 - 8 632 = 41 368 @ 12% = £4 964

5 064 - 164

Class 1 primary NIC

£5 028

(april 19 - june 19)

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

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

Answer-to-Question-_11_

Question 11

Quarterly payments 2019/20 - company with lower monthly total tax and NIC than £1 500.

Electronic payments for 2019/20 - Tax quarters

- 1) 5 July - payment 19th/22nd July 2019
- 2) 5 October - payment 19th/22nd October 2019
- 3) 5 January - payment 19th/22nd January 2020
- 4) 5 April - payment 19th/22nd April 2020

Late payment consequences

Penalties will be charged where PAYE is paid late. The first 3 defaults will be a charge of 1% of tax and NIC paid late. The following three months will mean a penalty of 2% of tax and NIC paid late, the following three months will result in a 3% penalty of tax and NIC paid lat and any subsequent penalties will be at 4%.

An additional 5% penalty will be charged if an amount is more than 6 months late and again more than 12 months late.

The first payment 2 weeks late meaning that they have already had a default payment surcharge and cannot make any further late payments of report late for the next 12 months.

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

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

Answer-to-Question-_12_

Question 12

company must have an annual bill of voer £3 million - YES

MAY

Total earnings in tax year to date 4 500 000
(4 mil +500k)

4 500 000 @ 0.05% = £22 500

JUNE

Total earnings in tax year to date 10 500 000
(4mil x 2 + 0.5 x 2 + 1.5 bonuses)

10 500 000 @ 0.5% = £52 500
(£22 500)

AL JUNE 2019 **£30 000**

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

-----ANSWER-13-BELOW-----

Answer-to-Question-_13_

Question 13

60 p x 19 000 11 400
less BU
passenger payments 3p would also be decuctible but this
would be on the individuals tax returns?
10 000 x 45p = (4 500)
4 000 x 25p = (1 000)

5 900 will be the taxable benefit to
IT

**NIC purposes all business miles at 45p x 14 000 = 6 300
CHARGEABLE TO NIC**

mileage use for personal use cannot be deducted from
benefits and is taxable on employee.

-----ANSWER-13-ABOVE-----

-----ANSWER-14-BELOW-----

Answer-to-Question-_14_

Question 14

Car benefits can be included in the payroll. If so, must be included on the payroll monthly by 22nd (19th if not electronically) and there will be Class 1 secondary NIC due on them by the employer at 13.8%. If in payroll, they do not need to be included in P11D.

Employer must provide employees with a description of benefits and the cash equivalent of each benefit by 31 May following the end of the tax year.

If not included in payroll they must be included on the form P46 within 28 days of the tax quarter in which the event occurred and reported on the P11D, similar to accommodation benefits. Class 1A NIC 13.8%/

Accommodation benefits cannot be included in the payroll and must instead be included in the P11D form (for benefits not included in payroll) and have Class 1A employer NIC at 13.8% paid by the employer only - the form must be submitted to HMRC electronically by 6 July following the end of the relevant tax year.

-----ANSWER-14-ABOVE-----

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Paper: **ATT Paper 3**

Part/Module: **Part 2**

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

LONG FORM QUESTIONS

Question 15

1) Calculate and explain correct VAT recovered in last two quarters, annual adjustment - VALUES BASED METHOD

Quarter ended 31 December 2019

	<u>Taxable supplies</u>	
<u>Exempt supplies</u>		
Input VAT	4 200	1
500		
Non-attributable VAT		
Recoverable amount		
69 500/81500 @ 100%		
(12k+69500) (W1)		
85% (rd) x input VAT 1 800	1 530	
<u>15% (rd) x input VAT 1 800</u>		
<u>270</u>		
Total taxable supplies	5 730	
Total exempt supplies		1
770		

Normal de minimis test

Is exempt input tax de minimis? i.e. can off of it be recovered?

Total exempt tax i.e. 1 770 must be less than 625 per month and no more than 50%. £590 per month and not more than 50% of total input tax so it would pass this test and can be recovered.

Quarter ending 31/12/19 - all of £7 500 can be recovered.

Quarter ended 31 March 2020

	<u>Taxable supplies</u>	
<u>Exempt supplies</u>		
Input VAT (W2) 700	4 500	1
Non-attributable VAT Recoverable amount (72k/81250) @ 100% (72k+9250)		
88% (rd) x input VAT 1 850	1 629	
12% (rd) x input VAT 1 850		
<u>222</u>		
Total taxable supplies	6 129	
Total exempt supplies 922		1

Normal de minimis test

Is exempt input tax de minimis? i.e. can off of it be recovered?

Total exempt tax i.e. 1 922 must be less than 625 per month and no more than 50% of the total taxable supplies. The less than 50% element is satisfied however the less than £625 is not as the average monthly supply is £641. This means only the taxable supplies can be recovered and the exempt cannot.

Quarter ending 31/03/20 only £6 129 can be recovered.

W1

Computer Sale

$$600 / 6 = 100$$

500 = VAT exclusive amount, no need to add to taxable supplies as already included.

W2

No input VAT as blocked on cars. Must take away from input tax for March 2020. $6540 - 2040 = 4\ 500$

2) Penalty for submission of inaccurate VAT return and how it can be reduced.

VAT returns

Incorrect return - 31 March 2019, needs to repay £2 500 VAT

Penalties for a wrongly calculated return are a percentage of the potential lost revenue. If the return contains a careless inaccuracy then the penalty would be a maximum of 30% (PENALTY £750) - however as Anwar disclosed this to HMRC himself, it could be reduced to a minimum of 0% as long as the outstanding VAT is paid as soon as is practicable to do so.

Form 625 should be used to disclose the error to HMRC however if the error is less than £10 000 it can be adjusted via the VAT return itself (with the Form 625 still used as a disclosure tool).

The penalty could also be suspended for a maximum of 12 months if the mistake is careless and HMRC think that the condition of suspension would help tax payer avoid further penalties.

3) VAT treatment on the sale of trade and assets - Transfer of Going Concern

If Better Living choose to buy Anwar's business, there is a chance that the transfer will be treated as a going concern which means it would be outside the scope of VAT. Certain conditions must be satisfied in order for this to be the case.

1) The assets are to be used by Better Living Ltd (the transferee) in carrying on the same kind of business. As most of the business aspects will remain the same, this would indicate that this is the case.

2) The transferor is registered from VAT, the transferee is already of becomes so, as a result of the transfer. Better Living is already a VAT registered company and on the assumption of Anwar's turnover, we believe that he is also registered.

3) the whole business is being sold therefore we do not need to considered part of the business transfer rules.

4) There should be no significant break in trading - although this is not expressly specified, we would assume as Anwar is still trading and provisional date of sale is 1 December 2020 - no significant break would exist. The transfers should also be completed as a series of consecutive transfers of business.

The transfer of going concern will also apply to any business assets such as stock in trace, machinery, goodwill and premises and fixtured and fitting.

In respect to Anwar's premises being sold, these would be standard rated if normally supplied, Better Living Ltd must notify HMRC that they have opted to tax the premises by the relevant date and they must notify Anwar that his option has not been diappplied by the same date.

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

Question 16 LETTER

Tax advisers address

Pride Ltd address

Today's date

Dear Sirs,

We hope that you are well.

Ahead of our meeting we thought that we may summarise some of the basic positions in relation to the matters you wish to discuss.

Adam's costs of secondment

Salary

As Adam is UK resident and domiciled, he will be subject to UK Income Tax and National Insurance Contributions on all of his worldwide income on an arising basis. Further to this, as his income whilst on secondment is paid into a UK bank account, this would also be fully taxable in the UK. Any gains that arise while Adam is on secondment, would also be fully subject to UK Capital Gains tax for the 2019/20 tax year.

Flights

If the flights are purchased by Pride Ltd and are to and from the location of secondment, they will be a fully tax exempt benefit for UK tax purposes.

Family Flights

Family flights to and from the secondment will also be an exempt benefit as Adam is on secondment (overseas) for a

period of longer than 60 days. This means that both the spouse and child under 18 will be able to utilise this - unfortunately the 19 year old child is classified as an adult therefore their flight will be taxable income.

Redundancy

We understand that you need to understand how Craig's post employment notice pay will be treated. Please see a brief explanation below:

Basic pay will be multiplied by the post employment notice and divided by the last pay period. This will then be subtracted by any amounts that have already been subject to tax on termination.

Calculation

$$54\ 000 / 12 = \mathbf{4\ 500}$$

$$4\ 500 \times 3/1 = 13\ 500 - 0 = \mathbf{13\ 500}$$

This amount will then need to be taken away from the termination payment of £27 500 and taxed as employment income. The remaining amount of the termination payment will be covered by the £30 000 termination payment which can be tax free i.e. £14 000.

Termination payment	27 500
less PENP	(13 500)
<hr/>	
Tax free termination payment	£14 000

£13 500 subject to to the top slice of individual's Income tax at 40% as Craig is a higher rate tax payer.

$$13\ 500 @ 40\% = \pounds 5\ 400$$

$$\text{NIC } 13\ 500 @ 12\% = \pounds 1\ 620 \text{ (Class 1 employee's primary NIC)}$$

$$\qquad \qquad @ 13.8\% = \pounds 1\ 863 \text{ (Class 1 secondary employer's NIC)}$$

The post employment notice pay will be fully subject to UK income tax and National Insurance contributions as this is

treated as employment income.

Receipt of comission and the necessary steps

Third party is acceptable as long adequate measures are taken and disclosed between all parties. We would need discuss disclosing the amount of comission that will be received, the nature of this fee i.e. whether it would be time based or a fixed amount and the identity of the third party so that wd could all conduct our relevant risk engagement processes.

We hope that you find this information useful. We must highlight that the above is merely an overview therefore if you wish to look into this further, we would suggest discussing this during our meeting to engage on a more formal basis and move this forward.

We look forward to hearing from you.

Best regards,

Tax adviser

-----ANSWER-16-ABOVE-----

-----ANSWER-17-BELOW-----

Answer-to-Question-_17_

Question 17

1)

a) **Statutory Adoption Leave**

This leave could be taken by Otis for a maximum of 52 weeks and Otis could receive payments for the leave for up to 39 weeks which are calculated as follows:

- Otis would receive **90%** of his average weekly earnings for the first 6 weeks of the leave; and
- for the remaining **33 weeks**, he would receive the lower of: 90% of his average weekly earnings of **£148.68**.

Any income tax and national insurance contributions would need to be deducted on the payments via payroll as standard.

b)

Park Ltd would be able to recover up to 92% of the statutory payments made to Otis during each month. As the company would be seen as small (ER and EE Class 1 NIC <£45 000 p/a) they may be able to recover the full amount of statutory payments as well as a 3% supplement.

Park LTD should keep all relevant records to prove this to HMRC, the amounts must be reported on teh Full Payment Submission monthyl, they must also be recorded separately on Otis' Form P60 as well as gross pay. Park LTD must also submit an Employer Summary to show any recoveries of statutory payments.

2) **Calculate amount chargeable to IT for employee with max**

proposed benefits - clear treatment of each

1) membership at public gym is fullt taxBLE

Benefits

gym membership	500
loan less thna £10 000 exempt	
Winnings	250 (not long service award)
bicycle storage is an exempt benefit	
weekly fruit delivered	- 40 per year trivial benefit not included
dental plan	490
<u>TAXABLE BENEFIT</u>	<u>1 240</u>

3) **EMI qualifying conditions**

Typical for a small company who eventuall wish to have an exit event when shares are Readily Convertible Assets (can be traded on a regular stock market) and are subject to NIC.

EMI is know as a share option scheme with favourable tax treatment and options can be given to **selected employees** worth up to £250 000. This is not an all employee scheme.

There is no limit on the employees that can participate other than those who have more than a 30% share in the company already.

the maximum value of shares in a company i.e. the annual turnover must not exceed £30 million per annum, the company must also not have more than 250 employees i.e. specifically aimed at small employers.

The shares must be exercised within 3 - 10 years of grant if they wish to utilise the tax advantages offered. Granted that the qualifying conditions are satisfied.

There is never any income tax or NIC at grant of the share options

There is no income tax and NIC charged at date of exercise

if shares are exercised at the MV set at the date of grant. If granted at a discount then income tax is due on the difference between the amount paid for the options and the higher of the Unrestricted Market Value at grant and Unrestricted Market Value at exercise.

The employees could choose to sign a section 431 election meaning that on share acquisition they would pay the full UMV and therefore be subject to the income tax on this - not the discounted price but then further on sale, they would not be subject to any further income tax charges on the difference between MVs - all gains would just be subject to Capital Gains tax. Possibly at 10% entrepreneurs relief.

*Hypothetical calculation
adquisition*

£1 x 10 000	(10 000)
MV	
12 x 10 000	120 000
Income tax on	110 000

sale

proceeds 50 x 10 000	500 000
less cost	(10 000)
<u>less amount already taxed</u>	<u>(110 000)</u>
Gain	380 000

Calculate taxable amounts - IT implications of scheme

4) Legal steps required to issue new shares.

- 1) provide applicants with a form of application
- 2) Shares are allotted via board resolution
- 3) Issue share certificates and documentation to those who have been allotted shares
- 4) Complete return of allotments via Form SH01 to Companies House

A special resolution must be passed by Board of directors and shareholders must agree for further shares to be issued

and funds to be raised.

There must be a change in the articles.

Legal documentation must be drawn up i.e. share agreement, plan rules, share certificate, deed.

Articles of association and companies house must reflect the new share allocation. Shares must be allocated and then issued after - the shareholders are only legally entitled to the shares from date of issue.

-----ANSWER-17-ABOVE-----

-----ANSWER-18-BELOW-----

Answer-to-Question-_18_

Question 18

1) PCRT in relation to managing ones own affairs.

It is not advisable for an individual to manage their own affairs as it creates a certain amount of risk.

The individual often does not have the correct accounting qualifications.

The individual must always adhere to Anti Money Laundering regulations and be aware of this.

There will be

2) Deemed salary payment 2019/20

October 2018

Income from relevant engagements	42 000
less automatic 5%	(2 100)
	39 900
less ER pension	(3 000)
less salaries and benefits paid	(2 000)
	(500)
less ER NIC on pay	(276)
not counting the professional indemnity insurance as this is not relevant to the engagement.	
GROSS DEEMEND PAYMENT	34 124
less ER NIC on GP	
<u>34 400 x 13.8/113.8</u>	<u>(4 138)</u>
<u>NET DEEMED PAYMENT</u>	
paid on last day of tax year 5 April	29 986

3) Advantage to OP Jones Ltd preparing accounts to 5 April rather than 31 March.

- 1) the application of the basis period is more simple
- 2) there will be no overlap profits
- 3) the 5 April deadline will also allign with Olivia's personal tax year therefore she is less likely to forget or make mistakes.

4) OP Jones Ltd PAYE reporting obligations.

Olivia should have notified HMRC of her business' chargeability by 5 October after beginning of trading - 5 October 2018?

Olivia should have submitted her 2017/28 return on the 31 January 2019 or three months atfer notice to file was issued by HMRC.

She may also be liable to pay her tax via payments on account therefore 31 January 2018 (i.e. during the tax year) then 31 July 2018 and any outstanding amounts on 31 January 2019.

The return should be submitted to the HMRC portal eletronically.

OP Jones will need to notify HMRC and make them aware that an amendment is necessary, she can do this for up to 9 months after the date she submitted her tax return.

A long as an enquiry notice has been given by HMRC by the quarter day following the 1st anniversary of the submission of the return HMRC can enquire into this however Olivia can appeal against any decisions they make through the Tribunal system.

Penalties for an incorrect return could be up to 30% if careless action, which seems to be the case here. and the

penalty could even be suspended for up to two years if HMRC deem this is acceptable.

Laura should keep all relevant records while the enquiry is ongoing.

Any late payments will have penalties as follows:

- £100 as an initial penalty, daily penalties of £10 per day for the first 90 days. if 6 months late then 5% of the liability due or £300 is greater. a further 5% if the return is 12 months late - however these penalties will be put on hold while HMRC is investigating into the return errors/ enquiries/ amendments as Laura may have a reasonable excuse that she didn't know the outstanding amounts needing to be paid.

There will also be interest on the late payments of tax.