



November 2020 Examination

PAPER 3

Business Compliance

Part II Suggested Answers

15.

1)

	Quarter to 31 December 2019 £	Quarter to 31 March 2020 £	Year to 31 March 2020 Total £
Supplies			
Taxable supplies (VAT exclusive) (Note 1)	69,000	72,000	300,000
Exempt supplies	<u>12,000</u>	<u>9,250</u>	<u>44,340</u>
Total supplies	<u>81,000</u>	<u>81,250</u>	<u>344,340</u>
Correct % recovery	86	89	88
0.5 marks for each % calculated plus ½ for rounding up (2 marks)	(69,000/81,000)	(72,000/81,250)	(300,000/344,340)
Input tax			
Directly attributable to taxable supplies (Note 2)	4,200	4,500 (6,540-2,040)	20,200
Directly attributable to exempt supplies	1,500	1,700	7,000
Non attributable	1,800	1,850	5,700
Non attributable × recovery %	1,548 (1,800 x 0.86)	1,647 (1,850 x 0.89)	5,016 (5,700 x 0.88)

Notes

- 1) The sale of the computer will result in the output VAT being recorded on the VAT return but capital items are specifically excluded as taxable supplies when computing the percentage for partial exemption. **(1)**
- 2) The input tax paid on the purchase of the car is blocked and therefore not recoverable. The input tax attributable to taxable supplies therefore needs to be reduced by this amount. **(1)**

Total amount to be recovered:

Recoverable input tax	Quarter to 31 December 2019	Quarter to 31 March 2020	Year to 31 March 2020
	£	£	£
Attributable to taxable supplies	4,200	4,500	20,200
Non attributable recovered	<u>1,548</u>	<u>1,647</u>	<u>5,016</u>
0.5 mark per total (1.5 marks)	<u>5,748</u>	<u>6,147</u>	<u>25,216</u>
Exempt input tax			
Attributable to exempt supplies	1,500	1,700	7,000
Non attributable VAT attributed to exempt	252	203	684
	<u>(1,800-1,548)</u>	<u>(1,850-1,647)</u>	<u>(5,700-5,016)</u>
0.5 mark per total (1.5 marks)	<u>1,752</u>	<u>1,903</u>	<u>7,684</u>

For de minimis to apply exempt input tax needs to be

- Less than 50% of total input tax and (1/2)
- Less than £625 pm (ie £1,875 pq/ £7,500 pa). (1/2)

So in quarter to 31 December 2019 the full amount of £7,500 (£5,748 + £1,752) is recoverable. (1/2)

In the quarter to 31 March 2020 only £6,147 is recoverable. (1/2)

Year ended 31 March 2020

Over the year the total recovered will have been £26,968 (£6,183 + £7,138 + £7,500 + £6,147)

For de minimis to apply to the year ended 31 March 2020, total exempt input tax of £7,684 needs to be:

- Less than 50% of total input tax and
- Less than £7,500 pa

Therefore, for the year to 31 March 2020 only the input tax related to taxable supplies of £25,216 is recoverable. (1/2)

This means that too much VAT has been reclaimed during the year. An annual adjustment of £1,752 is required (£26,968 - £25,216). (1/2)

(10 marks)

2)

Penalties for inaccurate returns are based on the potential lost revenue. It appears that Anwar's error is careless and therefore the penalty will be at the level of 30%. (1/2) So this will be £2,500 x 30% = £750. (1/2) However, if Anwar tells HMRC immediately then the penalty could be reduced to 0% as this could be classed as an unprompted disclosure. (1)

HMRC can suspend penalties in some cases involving careless error. With a suspended penalty certain conditions are applied by HMRC, which Anwar must adhere to for a specified time period

– normally between 3 and 12 months. If Anwar complies with the conditions, and no further errors are identified, when the period of suspension ends the penalty is waived. (1) – Bonus mark if discussed

(Max 2 marks)

3)

The sale of Anwar's business is likely to qualify as a transfer of a going concern (TOGC) (1/2), and so no VAT will be charged on the assets transferred (1/2). This is because the following conditions appear to have been fulfilled:

- The assets are to be used by the Better Living Ltd in the same type of business as that carried on by Anwar. (1/2)
- Better Living Ltd is already a taxable person. (1/2)
- The effect of the transfer appears to put Better Living Ltd in possession of a business which can operate as such. (1/2)
- The business appears to be a "going concern" at the time of transfer. (1/2)
- There will be no significant break in the normal trading pattern before or immediately after the transfer. (1/2)

(Max 3 marks)

Total (15)

16.

Letter to Board of Directors

Adviser address

Dear Board members,

Please find below response to your queries:

1) Secondment of an employee abroad

Set out below are the Income Tax and National Insurance Contributions consequences in relation to the overseas secondment of Adam, your UK employee:

- Initial/return flight: There are no income tax or NIC consequences of this expense. (1)
- Return journeys for Adam's spouse/children: There are no income tax or NIC consequences of this expense for Adam's spouse and the 17-year old child, as Adam is based overseas for at least 60 days continuously. (1). However, as the oldest child is over 18 years old (1/2), these expenses will be a benefit to Adam (1/2) and therefore subject to Income tax (1/2), and Class 1A NIC will be due on these costs (1/2)
- No relief is allowable for the hotel costs for family visits (1) therefore when these costs are reimbursed they should be subjected to PAYE (1/2) and Class 1 NIC via the payroll (1/2).

(6 marks)

2) Termination payment

Part of Craig's termination payment is deemed to be post-employment notice pay (PENP). You are required to work out the amount of PENP within the termination payment. (1/2)

The PENP amount will be treated as earnings and is fully taxable. (1/2). Where a payment is made to an employee under a contractual obligation, this payment will be regarded as earnings for Class 1 NIC purposes. The PENP will therefore be subject to NIC. (1/2)

The formula for the PENP is $(BP \times D / P) - T$

where

BP = basic pay i.e. £4,500 (1/2)

D = duration of the notice period i.e. 3 months (1/2)

P = duration of the last pay period i.e. 1 month (1/2)

T = the termination payment already taxed as earnings i.e. nil. (1/2)

The post-employment notice pay (PENP) is:

$(£4,500 \times 3/1) - \text{Nil} = £13,500$ (1/2)

The remaining £14,000 ($£27,500 - £13,500$) of the termination payment will be treated as an ex-gratia termination payment and will qualify for the £30,000 exemption (1/2). None of this will therefore be taxable (1/2) or subject to NIC (1/2).

(Max 5 marks)

3) Commission receipts

Where you give advice to Pride Ltd which if acted upon, results in the receipt of commission or other reward from a person other than Pride Ltd, then you should firstly inform the client of this. (1/2) In addition the amount of commission received should also be notified. (1/2)

In this case, as the amount of commission is unknown at the time, you should explain to Pride Ltd the expected basis on which the commission is being calculated or inform the client of the amount when the commission is received. (1/2)

At all times, you should take care to preserve normal standards of professional care and competence and should ensure that any advice given is in the best interests of Pride Ltd. If required to do so, you should be able to fully justify the advice given by reasons, other than the receipt of the commission. Therefore, Computer Solutions Ltd claim that their system is most appropriate must be fully investigated and understood. (1/2)

If you have any queries in relation to these issues then please do not hesitate to contact me.

Yours sincerely

Tax Adviser (1 for presentation)

(3 marks)

Total (14)

17.

1)

(a)

Employment conditions for statutory paid leave

Otis can receive payment for Shared Parental Leave (1/2).

Otis must have been continuously employed for at least 26 weeks by the date Michelle and Otis were matched with their child for adoption (1/2) and remain employed during the weeks of leave (1/2).

During the 66 weeks before they were matched (1/2), Michelle must have worked (as an employee or self employed) for at least 26 weeks (1/2) and have earned an average of £30 per week (1/2) in 13 of those 26 weeks. (1/2)

(Max 3 marks)

(b)

Recovery of Shared Parental Pay

Park Ltd will be able to recover 92% of the amount of ShPP (1/2). But if Park Ltd is a small employer – total Class 1 primary and secondary NIC before employment allowance of the previous year (1/2) is less than £45,000 (1/2) - the company will be able to recover 103% (1/2).

(2 marks)

2)

Taxable benefits

Amount chargeable to Income Tax:

	£	
Gym membership	500	(1/2)
Loan to buy season ticket	-	(1/2)
Write off of loan to buy season ticket	3,000	(1/2)
Award re most steps	250	(1/2)
Provision of bicycle storage	-	(1/2)
Fruit – trivial benefit	-	(1/2)
Dental plan (£310 + £170)	<u>480</u>	(1)
Taxable amount	<u>£4,230</u>	

(4 marks)

3)

Enterprise Management Incentive

Park Ltd can select which employees to award options (1/2). The employee must work full-time being at least 25 hours a week (1/2).

The employee and their associates must not have a material interest (1/2) (more than 30%) in Park Ltd (1/2).

There will be no Income Tax charge on the grant of the option (1/2).

If the sale is in more than 10 years, on exercise at that time, Income Tax will be due on the difference between market value on exercise and price paid i.e. $1,000 \times (\pounds 50 - \pounds 1) = \pounds 49,000$ (1).

If the exercise is within 10 years from grant, there is an Income Tax charge on the discount i.e. on the lower of market value at exercise (1/2) and market value at grant, less the exercise price $1,000 \times (\pounds 12 - \pounds 1) = \pounds 11,000$ (1).

As the options are exercised on sale of the shares, PAYE will be due as these are readily convertible assets (1/2).

(Max 5 marks)

4)

Issue of shares

To complete an issue of shares:

The individual makes an offer to subscribe for shares (1/2).

When the company accepts (1/2), this forms a binding contract (1/2). This acceptance means the shares have been allotted (1/2) and the company has a duty to issue the shares (1/2).

The contract is completed (the shares are issued) (1/2) when the shareholder's name is entered on the company's register of members (1/2).

(Max 3 marks)

Total (17)

18.

1)

PCRT re Members' Personal Tax Affairs

The PCRT advises that a member's own tax affairs should be kept up to date (1/2).

Neglect of a member's own affairs i.e. the fact Olivia's return and payment are late for 2017/18 (1/2) could raise doubts within HMRC as to the standard of Olivia's professional work (1/2) and could bring into disrepute Olivia (1/2) or her professional body, the ATT (1/2).

Help Sheet E proposes Olivia may consider engaging an agent to represent her when dealing with the HMRC enquiry as she is in dispute with HMRC (1/2).

(3 marks)

2)

Deemed salary payment

		£	
Income from relevant engagements		42,000	(1/2)
Less 5% automatic deduction		<u>(2,100)</u>	(1/2)
		39,900	
Less salary	2,000 × 12	(24,000)	(1/2)
Less class 1 secondary NIC	(24,000 – 8,632) × 13.8%	(2,121)	(1)
Less PII		(480)	(1/2)
Training course		-	(1/2)
Less employer pension contribution		<u>(3,000)</u>	(1/2)
Gross deemed payment		10,299	
Employers NIC on gross payment	10,299 × 13.8/113.8	<u>(1,249)</u>	(1)
Net deemed payment		<u>9,050</u>	

(5 marks)

3)

OP Jones Ltd year end

The gross deemed salary payment is deductible in calculating OP Jones Ltd's trading profits for Corporation Tax (1/2) in the period when the deemed payment is treated as made i.e. 5 April (1/2). A 31 March year end means the deemed salary payment (which mostly relates to the income of that year) is not deducted until the following year i.e. 5 April year end leads to an earlier deduction (1).

(2 marks)

4)

PAYE reporting obligations

Monthly salary payment must be reported electronically on a Full Payment Submission (FPS) (1/2) on or before the payment under RTI rules (1/2).

The deemed salary payment must also be reported on an FPS (1/2) on or before 5 April (1/2). The reported deemed salary can be based on a provisional calculation (1/2).

The FPS must include the amount of Income Tax and NIC payable (1/2).

Adjustments to the provisional deemed salary amount should be reported on an Earlier Year Update or further FPS (1/2) by the following 31 January (1/2).

(4 marks)

Total (14)



November 2020 Examination

PAPER 3

Business Compliance

Part I Suggested Answers

1. If a business adopts the flat rate scheme then VAT at 20% is charged on sales, but instead of VAT being reclaimed on purchases, VAT is paid at a flat rate based on the amount of VAT inclusive turnover. (1) Louis however will be classed as a 'limited cost business' as the goods purchased cost less than either:

- 2% of turnover
- £1,000 a year (if your costs are more than 2%) (1) for recognition of limited cost trader

This means that VAT will be paid over at the rate of 16.5%. The journal entries are as follows:

DR Bank/Debtors (Gross Amount) £14,400
CR Sales (Gross Amount) £14,400 (1)

So the sale is initially recorded as gross

DR Sales (the percentage applied to the gross sales) £14,400 x 16.5% = £2,376
CR VAT payable. £2,376 (1)

(4 marks)

2.

- The export to an international country will be zero rated for VAT (1/2)
- The import will be liable to VAT on entry and this will be payable to HMRC. The amount can be recovered by Neptune Ltd as input VAT (1). If Neptune Ltd is a regular importer, it is likely that the import VAT can be deferred by setting up an account with HMRC (1/2)
- Purchase of services by a UK business are liable to VAT in the country where the customer is based and are charged to VAT under the reverse charge system. (1/2) Therefore Neptune Ltd must account for output tax on the supply as it is a UK supply. (1/2) The amount can also be deducted as input tax. (1/2)

(Max 3 marks)

3. As Jacinta expects taxable sales in the next 12 months to be less than £83,000(1/2) she can deregister at any time. The date of deregistration is based on the date the application is actually received by HMRC or a later date. (1/2)

If Jacinta decides not to voluntarily deregister then compulsory deregistration will take place when she:

- ceases to trade with no intention of making future taxable sales (1/2); or
- sells the business (1/2)
Compulsory deregistration is effective immediately. ie on
- 31 December 2020(1/2); or
- 1 February 2021(1/2)

In either case HMRC must be notified within 30 days of the compulsory deregistration (1/2).

On sale of the business Jacinta could instead transfer the registration to the new owner of the business. (1/2)

(Max 3 marks)

4. Jago

In order to qualify under the CSOP scheme options must be granted at market value (1/2). So the exercise price of Jago's shares would need to increase to £5 per share (1/2). However this would then mean that the full value of the share options is £32,000 (6,400 × £5) (1/2). The maximum number of share options that can be held is £30,000 (1/2). So the number of share options would need to be reduced to 6,000 (1/2).

Rosie

Under the CSOP scheme options cannot be granted to part time directors where they work less than 25 hours per week (1/2). So Rosie cannot receive share options under the scheme. (1/2)

Daveth

The maximum number of unexercised share options that any employee can have is £30,000. Therefore Daveth can only be granted an additional £20,000 ie 4,000 additional shares (1/2).

Carina

Share options can be granted to part time employees. So the share options valued at £25,000 (5,000 × £5) can be granted to her (1/2).

(Max 4 marks)

5.

	£
Personal allowance	12,500
Less: Benefits	(500) (1/2)
Less: Tax underpaid 250 × 100/20	<u>(1,250) (1)</u>
Net allowances	<u>10,750</u>
Tax Code	1075L (1/2)

(2 marks)

6. The figures, which Essle Ltd needs to report to HMRC are:

Gross amount £700 (1/2)

Qualifying materials £200 (1/2)

CIS tax to deduct £100 (£500 × 20%) (1/2)

The contractor would therefore pay £100 to HMRC (1/2) and the subcontractor £740 (£840 gross amount - £100 paid to HMRC). (1)

(3 marks)

7. Input VAT

Purchases = £12,000 x 1/6 = £2,000 (1/2)

Client entertaining is not recoverable as the input VAT is blocked. (1/2)

The business proportion of the telephone bill will be recoverable. (1/2) Total VAT = £1,044 x 1/6 = £174. (1/2) 70% of this, so £122 will be recoverable. (1/2)

VAT payable = £13,000 – (£2,000 + £122) so £10,878(1/2)

(3 marks)

8. Gwen makes a 6.15% saving of Class 1 primary NIC (5.85% instead of 12%) on earnings between the primary threshold and the upper earnings limit (1/2) ie £2,544 ((£50,000 - £8,632) × 6.15%) (1/2).

The rate of 2% for earnings above the upper earnings limit remains unchanged (1/2).

No saving is made by the company, as the Class 1 secondary NIC payable by the company is unchanged (13.8% above the secondary threshold) (1/2).

(2 marks)

9. Luciana must enrol Chris because he is at least 22 years old (1/2), he is under state pension age (1/2), he will earn more than £10,000 (1/2), and his work is in the UK (1/2).

(2 marks)

10. April 2019 – nil (1/2) (£5,000 < £8,632)

May 2019 – (2 x £5,000 (1/2) – 8,632) × 12% (1/2) = £164

June 2019 – 3 x £5,000 + £40,000 = £55,000 (1/2)

(55,000 – 50,000) × 2% (1/2) + (50,000 – 8,632) × 12% - 164 (1/2) = £4,900

(3 marks)

11. Payment dates (1)

22 July 2019

22 October 2019

22 January 2020

22 April 2020

Interest of 3.25% per annum (1/2) is charged for the two weeks from the due date until paid (1/2). There is no penalty as this is the first late payment (1/2).

(Max 2 marks)

12.

	£	
$0.5\% \times (4m)$ (1/2) + 0 (1/2)	20,000	
Less levy allowance $\text{£}15,000 \times 1/12$ (1/2)	<u>(1,250)</u>	
Levy for month ended 5 May 2019	18,750	
$0.5\% \times ((2 \times 4m) + 1.5m)$ (1/2)	47,500	
Less levy allowance $\text{£}15,000 \times 2/12$ (1/2)	<u>(2,500)</u>	
	45,000	
Less levy paid in year to date (1/2)	<u>(18,750)</u>	
Levy for the month ended 5 June 2019	<u>26,250</u>	

(3 marks)

13.

Amount chargeable to Class 1 NIC:

	£	
General mileage payments $60p \times 19,000$	11,400	(1/2)
Mileage allowance $45p \times 14,000$	<u>(6,300)</u>	(1/2 + 1/2)*
	5,100	
Passenger payments	<u>-</u>	
Amount chargeable to Class 1 NIC	<u>£5,100</u>	

Roger can receive up to 5 pence per business mile travelled (1/2) per passenger so the passenger payments are not chargeable (1/2). He cannot claim an additional deduction for the 2 pence per business mile per passenger which he is not paid (1/2).

Tutorial note

Narrative explanation is not required for the last two half marks – awarded if the computation includes, in respect of passenger payments, no overall chargeable amount (so recognises the allowance is per passenger) and no additional deduction respectively.

(3 marks)

14.

Seldip Ltd must include the cash equivalent of the car benefit (1/2) on a form P60 (1/2) provided to each employee by 31 May after the tax year (1/2).

The employer must also separately give the employee details of the payrolled benefit and the cash equivalent by 31 May after the tax year (1/2).

The cash equivalent of the accommodation benefit must be included on form P11D (1/2) provided to each employee by 6 July (1/2).

(3 marks)