THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

November 2020

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Louis is an architect, providing services to private VAT registered businesses. His VAT inclusive turnover for year ended 31 March 2020 was £74,400 and his overall business costs, inclusive of VAT, were £550. Louis has been registered for VAT for a number of years under the flat rate scheme. The flat rate percentage for the sector is 14.5%.

   During the quarter ended 31 March 2020, his VAT inclusive turnover was £14,400 and he incurred VAT inclusive costs of £60.

   Explain how the flat rate scheme will operate in respect of Louis' business and show the journal entries needed, for the transactions in the quarter ended 31 March 2020. (4)

2. Neptune Ltd is a UK VAT registered trading business buying and selling handbags. During the quarter ended 31 March 2020, it entered into the following transactions:

   1) Export of standard rated goods to Canada
   2) Import of standard rated goods from China
   3) Payment for accountancy advice in relation to international expansion of the business from an accountant based in Australia

   Explain how each of the transactions will be treated for VAT purposes.

   (3)

3. Jacinta has been VAT registered for many years, selling standard rated goods. In recent times her business has experienced a fall in sales. When she last did some forecasting she expected the sales for the year to 31 March 2021 to be £81,000 excluding VAT and expects to be making a trading loss. She does not expect this to improve in the foreseeable future.

   As a result, she is considering stopping trading on 31 December 2020. However, she has been approached by somebody wanting to buy her business on 1 February 2021. If she decides to sell then she will continue trading as normal until that date.

   Explain Jacinta's position in relation to both voluntary and compulsory deregistration, including the potential date(s) from which deregistration may take place. (3)

4. Prynn plc ordinary shares are currently valued at £5 per share. The company intends to invite a number of key employees to take part in the Company Share Option Plan (CSOP). The details are as follows:

	Position in Prynn plc	Number of options	Exercise price £
Jago	Full time director	6,400	4.50
Rosie	Part time director (21 hours pw)	5,000	5.00
Daveth	Full time employee	5,500	5.00
Carina	Part time employee (18 hours pw)	5,000	5.00

Daveth already has unexercised share options with an exercise price of £10,000.

Explain for each of the key employees whether Prynn plc is able to grant these options under the Company Share Option scheme (CSOP) and any changes required to the number of options and/or the exercise price in order to meet the conditions for CSOP. (4)

5. Mike Ellington is a basic rate tax payer employed by Liver Ltd. During 2019/20, he was paid a salary of £22,000 and was provided with private medical insurance by Liver Ltd at a cost of £500, which was not included in payroll. Mike had underpaid tax of £250 in 2017/18.

Calculate Mike Ellington's tax code for the tax year 2019/20. (2)

6. Neil is a VAT registered subcontractor working on a contract for Essle Ltd. Essle Ltd have verified that Neil is registered under the Construction Industry Scheme and has advised that a 20% deduction rate should be used. During March 2020 Neil submitted an invoice to Essle Ltd for the following:

Labour £500 plus VAT of £100
Materials £200 plus VAT of £40

Calculate the amounts which Essle Ltd must report and pay to HMRC and the amount it paid to Neil. (3)

7. Maxwell is a VAT registered trader, making wholly taxable supplies. During the quarter ended 31 December 2019 he made taxable supplies on which output tax of £13,000 was charged. He also incurred the following expenses (all amounts are inclusive of VAT):

	£
Purchase of stock for resale	12,000
Client entertaining	1,032
Telephone bill	1,044

Maxwell has estimated that during the quarter, 70% of the telephone calls made were for business purposes with the remaining 30% being private.

Calculate and explain, the amount of VAT payable/repayable for the quarter ended 31 December 2019. (3)

8. Tech-X Ltd recruited a new employee, Gwen, to be paid £55,000 per annum. Gwen provided the company's payroll department with a certificate of election in respect of Married Women's Reduced Rate National Insurance Contributions. The payroll manager had never seen such a certificate.

   Explain, with supporting calculations, the annual savings to be made by Gwen and by Tech-X Ltd as a result of this certificate. (2)

9. Luciana is returning to work after maternity leave. She will employ Chris to look after her son at her London home. Chris is aged 25 and Luciana will pay him an annual salary of £20,000. Luciana has heard that she will have to contribute to a workplace pension for Chris unless Chris opts out.

   Explain why Luciana is obliged to enrol Chris in a workplace pension scheme. (2)

10. Mick is a director of Holibot Ltd. He received a salary of £5,000 per month throughout 2019/20, on the 25th day of each month. He received a bonus of £40,000 with his June 2019 salary.

    Calculate the Class 1 primary National Insurance Contributions payable in respect of April 2019, May 2019 and June 2019, applying the earnings period for directors. (3)

11. Pitza Ltd was allowed to make quarterly payments of PAYE and National Insurance Contributions, in respect of salaries paid in 2019/20. The company made the first electronic payment two weeks late but otherwise paid on time.

    State Pitza Ltd's due dates for electronic payments of PAYE and National Insurance contributions in respect of 2019/20 and explain the consequences of the late payment. (2)

12. For 2019/20, Tatse plc paid salaries of £4 million per month and provided non-cash benefits with taxable value of £0.5 million each month. The company paid bonuses of £1.5 million at the end of May 2019.

    Calculate the apprenticeship levy due for the month ended 5 May 2019 and for the month ended 5 June 2019. (3)

13. Coffee Ltd employs Roger. In 2019/20, Coffee Ltd paid Roger 60 pence per mile for 19,000 miles travelled by Roger in his own car. Roger drove 14,000 miles on journeys from Coffee Ltd's office to various clients around the UK. He drove the remaining 5,000 miles on journeys from his home to Coffee Ltd's office, his permanent workplace.

    On the journeys to clients, two of Roger's colleagues always travelled with him. Coffee Ltd paid Roger a further three pence per mile per passenger for driving the colleagues.

    Calculate the amount of mileage and passenger payments chargeable to Class 1 National Insurance Contributions and explain the treatment of the passenger payments. (3)

14. The employees of Seldip Ltd receive car benefits and accommodation benefits. Seldip Ltd is registered with HMRC to include benefits in the payroll, where possible.

    State the year end PAYE obligations of Seldip Ltd to its employees in respect of their benefits. (3)

PART II

15. You are a tax adviser in practice and Anwar is a client of your firm. A colleague of yours has been responsible for Anwar's tax affairs but has recently gone on sick leave.

Anwar is a partially exempt trader, working as a consultant providing health and nutritional advice to local government bodies; but also undertaking private work for large companies. You have been asked to check the VAT calculations for Anwar's business for the last two quarters of the year and give some further advice. You find the following information from his business records:

VAT

Anwar has always used the standard method of recovery for VAT.

His results for the final two quarters of the year to 31 March 2020 and the total for the year are as follows:

	Quarter to 31 December 2019 £	Quarter to 31 March 2020 £	Year to 31 March 2020 Total £
Supplies			
Taxable supplies (VAT exclusive)	69,500	72,000	300,500
Exempt supplies	12,000	9,250	44,340
Input tax			
Directly attributable to taxable supplies	4,200	6,540	22,240
Directly attributable to exempt supplies	1,500	1,700	7,000
Non attributable	1,800	1,850	5,700

The input tax recovered in the quarters to 30 June 2019 and 30 September 2019 was correctly calculated as £6,183 and £7,138 respectively.

In the quarter ended 31 December 2019, Anwar sold a computer to a third party for a VAT inclusive price of £600. The VAT exclusive amount of £500 is included in taxable supplies for the quarter ended 31 December 2019 (and in the total for the year to 31 March 2020). The computer had been used wholly in relation to the making of taxable supplies.

In the quarter ended 31 March 2020, Anwar bought a car for use mainly in the business. The VAT paid on the car was £2,040. This amount has been recorded as input tax directly attributable to taxable supplies during the quarter (and for the year).

VAT returns

Anwar has reviewed his VAT returns for the year to 31 March 2019 and has discovered that because he put an incorrect figure into his business accounts for taxable supplies in the quarter to 31 March 2019, he has recovered more VAT than he should have done. He needs to repay £2,500 of VAT to HMRC.

Continued

Continuation

Sale of the business

Anwar has been approached by Better Living Ltd, a large VAT registered company undertaking similar work to Anwar. Better Living Ltd have offered to buy the trade and assets (including client lists) of Anwar's business for £800,000. A purchase date of 1 December 2020 has been discussed. On that date, Better Living Ltd will become the supplier and the company will immediately continue with the trade. The premises, trade, clients and staff of Anwar's business will be exactly the same as they were previously.

Requirements:

1) **Calculate and explain the correct amount of VAT that should have been recovered in each of the last two quarters, and the annual adjustment required, including an explanation of the treatment of the capital items.** (10)

2) **Calculate the penalty that Anwar could face for the submission of inaccurate VAT returns for the quarter ended 31 March 2019 and explain how this penalty may be reduced.** (2)

3) **Explain the likely VAT treatment on the sale of Anwar's trade and assets to Better Living Ltd.** (3)

Total (15)

16. You are a tax adviser working in practice. Your firm acts for Pride Ltd and you are preparing for a meeting with the client. You have been asked to write a letter to the Board of Directors at Pride Ltd addressing the following areas:

Secondment of employee abroad

Adam is UK resident and domiciled. He is employed by Pride Ltd in the London office in the UK. He took up a six-month full time secondment to Pride Ltd's Atlantica office starting in May 2019.

During the period he was seconded, Adam did not return to the UK. He did however, continue to be paid by Pride Ltd and his salary was paid into his UK bank account.

Pride Ltd paid all of the following costs relating to the secondment:

1) The cost of Adam's initial and return flights to the UK.

2) Two return journeys for Adam's spouse and two children aged 17 and 19.

Pride Ltd also agreed to reimburse the accommodation costs of Adam's spouse and children when they visited.

Redundancy

Craig has worked for Pride Ltd for 15 years. Craig earned a basic salary of £54,000 per annum and was paid monthly. Under the terms of his employment, Craig had a three month notice period. On 1 October 2019 he was dismissed without notice and on 5 October 2019, he received a termination payment of £27,500.

Commission

Pride Ltd needs a new IT system. A client of your firm, Computer Solutions Ltd has offered to pay your firm commission if you recommend them to Pride Ltd and they secure a contract to install the new system. The commission paid is likely to be on a percentage basis of the fee charged.

Requirements:

Write a letter to the Board of Directors in Pride Ltd in which you:

1) Explain the UK Income Tax and National Insurance Contributions consequences in relation to Adam's costs of secondment. (6)

2) Calculate the amount of the post employment notice pay and explain how the termination payment will be treated for Income Tax and National Insurance Contributions purposes. (5)

3) Explain whether the receipt of commission is acceptable, referring to the ATT's Professional Rules and Practice Guidelines and the steps your firm should take with Pride Ltd. (3)

Total (14)

17. Your firm acts for Park Ltd. Park Ltd has three employees and two directors. The directors own the entire share capital of Park Ltd.

The directors want advice on statutory paid leave, certain benefits, and the implementation of a share scheme.

Statutory paid leave

Otis is one of Park Ltd's employees. He and his partner Michelle have recently adopted a daughter and Michelle has started Statutory Adoption Leave. Otis has requested several weeks off work, whilst still receiving some payment. He has already used all of his holiday entitlement and taken paternity leave. The directors want to check whether they have to pay Otis for further leave and whether they can recover any of their payments to Otis from HMRC.

Proposed benefits

The directors are considering offering incentives to improve employee health. They want to know the taxable amounts of the following benefits:

1) Membership at a public gym, costing the company £500 per employee which is a 20% discount off the price to the public.

2) A loan of £3,000 to buy a season train ticket. If the employee does not drive to work once during the year, Park Ltd will write off the loan at the end of the tax year.

3) Award of £250 cash to the employee who walks the most steps in the tax year.

4) Provision of bicycle storage on company site. Park Ltd can rent space for five bicycles on site at a cost of £1,000 per annum.

5) Weekly fruit delivered to Park Ltd office for employees, costing an average of £40 per employee per year.

6) Dental plan, costing the company £310 per employee and an additional £170 if the employee opts for the plan to cover their spouse or partner.

Share Scheme

The directors of Park Ltd intend to grow the company and sell it in eight to 12 years. They want to implement a share option scheme to allow employees to share in this growth.

They plan to set up an Enterprise Management Incentive (EMI) scheme. The employees would only be able to exercise their options just before the sale of the company. The exercise price would be £1 per share, and an employee would be granted options over 1,000 shares. The current market value is £12 per share. The directors hope to increase the market value to £50 per share by the date of sale.

The directors want to know to whom they can award options. They want to understand the Income Tax implications for the employees of the EMI scheme.

Continued

Continuation

Requirements:

1) **In respect of Otis:**

   (a) **Explain the employment conditions which must be met by Otis and Michelle for Otis to qualify for several weeks of statutory paid absence. Do not include the conditions required for Statutory Adoption Leave.** (3)

   (b) **Explain the amount of the statutory payment to Otis that Park Ltd may be able to recover.** (2)

2) **Calculate the amount chargeable to Income Tax for an employee who receives the maximum proposed benefits, showing clearly your treatment of all items.** (4)

3) **Explain the EMI qualifying conditions in respect of employees and, with calculations of taxable amounts, the Income Tax implications of the scheme.** (5)

4) **Explain the legal steps required in the issue of new shares, assuming the company directors have the necessary authority.** (3)

Total (17)

18. Olivia is a member of the ATT. She has income from her work and from investments.

In October 2018, Olivia resigned from her job at MXY LLP, a firm of accountants. She then started her own tax practice. She operates through a company, OP Jones Ltd, which prepares accounts to 31 March each year. Olivia is the sole shareholder and director of OP Jones Ltd.

OP Jones Ltd engaged clients immediately. Olivia was so busy working that she was late submitting her personal self-assessment tax return for 2017/18. She also paid her self-assessment Income Tax late for that year.

HMRC opened an enquiry into Olivia's 2017/18 tax return. The enquiry is ongoing and HMRC seems to disagree with one aspect of the return.

From 6 April 2019, MXY LLP, Olivia's former employer, engaged with OP Jones Ltd for Olivia to complete monthly payroll services. This is a relevant engagement for the purposes of the personal service company legislation. OP Jones Ltd charged £42,000 for this work during the year ended 31 March 2020. Olivia also completed work for unconnected clients, with OP Jones Ltd invoicing these clients £8,000 in total during the year.

OP Jones Ltd paid Olivia a salary of £2,000 per month and paid for professional indemnity insurance costing £480 per annum. In December 2019, OP Jones Ltd paid £500 for Olivia to attend a relevant training course and contributed £3,000 into an occupational pension scheme on Olivia's behalf.

Requirements:

1) **Explain how Professional Conduct in Relation to Taxation (PCRT) applies to Olivia in terms of managing her own tax affairs.** (3)

2) **Calculate the deemed salary payment to Olivia for 2019/20.** (5)

3) **Explain the advantage to OP Jones Ltd of preparing accounts to 5 April rather than 31 March each year.** (2)

4) **Explain OP Jones Ltd's PAYE reporting obligations to HMRC in respect of 2019/20.** (4)

Total (14)