

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

November 2022

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. Robert is a VAT registered trader. In the quarter to 31 March 2022, he gave six of his staff a gift of a hamper consisting of wine, sweets and chocolate. The cost to Robert of the hamper was £90 including VAT and he had purchased the hampers on 8 February 2022.

Robert wants to retire from the business and will cease trading on 1 January 2023.

Explain the VAT treatment of the purchase and gift of the hampers. Explain the date by which Robert should notify HMRC that he must deregister. (4)

2. Kingsley Ltd is VAT registered with a VAT year end of 31 March and uses the annual accounting scheme. Kingsley Ltd wishes to move to the cash accounting scheme in future years. Taxable turnover is expected to be £500,000 for the next few years.

Explain the conditions for joining the cash accounting scheme, and the differences for Kingsley Ltd between how the cash accounting and annual accounting schemes operate. (4)

3. Arnott plc makes accounts up to 31 March each year. The following information relates to the Corporation Tax provision and charges for the year ending 31 March 2022.

	£
Corporation Tax provision for year ended 31 March 2022	280,000
Corporation Tax paid on 1 October 2022 for year ended 31 March 2022	233,000

Show the journal entries required to record the two transactions and the adjustment required for any under/over provision of Corporation Tax. Identify whether the journal entries relate to the Balance sheet or the P&L. (3)

4. The issued share capital of Micron Ltd is 50,000 £1 shares and is owned as follows:

	<u>Number of shares</u>
Alfie Star	7,500
Catherine Star (Alfie's wife)	4,000
Michael Sky (Alfie's brother)	3,500
Abbey Graham	3,500
Aoife Wadsworth (Abbey's sister)	2,500
Dongchen Gao (Abbey's business partner)	4,500
Glen McKie	1,000
10 other equal shareholders	<u>23,500</u>
Total	<u>50,000</u>

Alfie and Catherine Star are also directors of Micron Ltd.

During the year ended 31 March 2022, Micron Ltd made a loan of £30,000 to Alfie Star at the official rate of interest. Micron Ltd is not a large or very large company for Corporation Tax payment purposes.

Explain why Micron Ltd is a close company, and so the tax consequences for the company of making the loan to Alfie Star and the due date of payment for any tax due. (3)

5. Redcoat plc has an accounting year end of 31 December and pays Corporation Tax by quarterly instalments. It regularly reviews the estimate of its tax liability and reduces and increases payments accordingly to minimise any interest charges. During the year it made the following payments:

	£
14 July 2021	10,000
14 October 2021	17,500
1 November 2021	5,000 (top up payment)
14 January 2022	20,000
14 April 2022	7,500

For the year ended 31 December 2021, its final Corporation Tax liability is £60,000.

Calculate the amounts on which debit/credit interest was due. Clearly state whether each amount will result in debit interest or credit interest. (3)

6. Ibrahim is employed by Factor Ltd on an annual salary of £22,000 and is automatically enrolled into its occupational money purchase pension scheme. Ibrahim pays 3% of his qualifying earnings into the scheme and Factor Ltd pays 5%.

Calculate the minimum contribution made to the pension scheme by Ibrahim and Factor Ltd and show the amount of earnings subject to PAYE for 2021/22. (3)

7. Shep began trading on 1 July 2020. The results for his first two periods of account were:

	£
Year ended 30 June 2021	26,000
Year ended 30 June 2022	37,000

Calculate Shep's trading profits for 2020/21 and 2021/22 and his overlap profits. State the basis periods. (3)

8. Builz Ltd is a construction company which engages subcontractors under the Construction Industry Scheme.

Laura, a subcontractor, provided services to the company for three weeks beginning 7 February 2022. She invoiced and was paid weekly. Laura is registered with HMRC but does not receive payments gross from contractors.

Explain Builz Ltd's reporting obligations regarding payments to Laura. (3)

9. Zara is a partner in JB Partnership. Her trading profit from the partnership, which she takes as drawings each year, was £45,000 in 2021/22.

She wants to know whether she would have had more after-tax income to spend in 2021/22 if she had been an employee earning a salary of £45,000.

Calculate Zara's net income after Income Tax and National Insurance Contributions if:

1) she is a partner

2) she is an employee.

(4)

10. For payments made to employees during 2021/22, Concar Ltd had the following monthly PAYE and National Insurance Contribution (NIC) amounts:

	<u>Monthly amount</u>
	£
PAYE (Income Tax)	1,701
Class 1 primary NIC	1,235
Class 1 secondary NIC	1,480

Explain, with reference to the amounts given, the use of the employment allowance for 2021/22. (2)

11. Sophie has five employees. She makes monthly payments of PAYE and Class 1 National Insurance Contributions (NIC) electronically. However, the payments for the month ended 5 August 2021 (£2,800) and the month ended 5 October 2021 (£3,100) were not made until 30 September 2022.

Sophie has made all other payments on time.

Explain, with supporting calculations, the total late payment penalties for Sophie. (3)

12. Greg works for Amvan Ltd. Throughout 2021/22, his employer provided him with a monthly entertaining allowance of £200 which he used to take clients to lunch as required for his job. One of the clients took Greg to a concert in May 2021. The ticket cost the client £85.

In August 2021, Amvan Ltd held a small summer party for employees which cost the company £60 per head. In January 2022, the company also held a larger party for employees costing £135 per head.

Explain the Income Tax implications for Greg of the allowance, the concert and the parties, identifying clearly any amounts taxable. (3)

13. The head office of Osmain Ltd is in the north of England. One of the company's employees, Stewart, lives in Scotland but commutes each weekday to the head office.

During 2021/22, Stewart spent 330 days in the UK and the remaining days on holidays abroad.

Explain why Stewart is a Scottish taxpayer in 2021/22 and state the effect on his tax code. (2)

PART II

14. Xi Fu is a UK VAT registered trader and runs a retail business manufacturing drones and selling books on the advancement of drone capability.

Xi uses apportionment scheme 2 for VAT. In the quarter to 31 March 2022, the results of the business were as follows:

	<u>Standard rated goods</u>	<u>Zero rated goods</u>
	£	£
Purchases for resale	900,000 including VAT	450,000
Estimated selling price	1,320,000 including VAT	700,000

During the quarter to 31 March 2022, Xi made sales of £1,050,000 including VAT. The estimated selling price (ESP) including VAT of all goods purchased in the year to 31 March 2022 was:

	<u>Standard rated goods</u>
	£
Standard rated goods	5,520,000
Zero rated goods	1,680,000

One of Xi's employees, Ramon has recently visited clients across the UK. Ramon used his own car to travel 3,700 miles throughout March 2022 and was paid 45p per mile by Xi. Ramon owns a diesel car with a 1700 cc engine. During March 2022, Xi took a client out for a meal at a cost of £146 including VAT and held a staff party at a local hotel for a total cost of £936 including VAT. The employees accounted for half of the attendees at the party, with the other half being partners and guests of the staff.

Xi is expanding her business in the future and has entered contracts to buy 75% of the shares in Avonmore plc, 30% of the shares in Bowness Ltd and 60% of the shares in Fellfoot plc. All companies are UK trading companies and are VAT registered.

Xi is also looking to offer consultancy services to other businesses on the research and development of new drones in the future. Xi is planning to travel to Alaska during the year ending to 31 March 2023 to do some consultancy work for Logodrone Inc. One of the directors at Logodrone Inc has asked Xi to do some consultancy work for his wife, Ellen, who has a keen personal interest and hobby in the various types of drones available. Xi will be paid for all of the planned consultancy work in Alaska.

Xi has also had some initial discussion with Tech I, a technology company based in Alaska for Tech I to supply Xi with advice on technological advances in order to expand the range of drones within her business in the future.

Requirements:

- 1) Calculate the amount of output VAT to be included in Xi's VAT return for the quarter ended 31 March 2022 in respect of the goods for resale. (3)**
- 2) Calculate and explain the amount of VAT that Xi will be able to reclaim for the expenses incurred March 2022 in relation to Ramon, the client and the staff party. (4)**
- 3) Explain if Xi is able to form a VAT group with the companies she intends to invest in and the advantages of being part of a group for VAT purposes. (3)**
- 4) Explain the place of supply and how Xi should account for VAT for the work with Logodrone Inc, Ellen and the technology company in Alaska. (5)**

Total (15)

15. You are a tax adviser in practice and Gibbon Ltd is a client of your firm.

Gibbon Ltd is an online retailer of cleaning products. It was incorporated on 1 November 2019. On 1 January 2020, it deposited £75,000 in a bank account, which pays interest at the rate of 1.5% per year. Gibbon Ltd commenced trading on 1 March 2020.

It prepared its first set of accounts for the 15-month period to 31 January 2021. Gibbon Ltd has recently prepared its second set of accounts for the 12 months ended 31 January 2022.

Gibbon Ltd has started to expand its trade and has recently recruited two new members of staff from a competitor firm:

Amar Kalfi

Amar started to work for Gibbon Ltd on 1 June 2021. Gibbon Ltd paid £9,500 for qualifying relocation expenses. Since 1 June 2021 Gibbon Ltd has provided Amar and his family with a house to live in. The house cost Gibbon Ltd £425,000 in March 2020 and has an annual value of £12,200.

Amar was also provided with a petrol car when he started his employment with Gibbon Ltd. The car had CO₂ emissions of 132g/km, a list price of £25,400 and was first registered in March 2021. Gibbon Ltd paid for all of Amar's petrol.

Amar is a higher rate taxpayer.

Emily Hunter

Emily is postgraduate who was recruited in March 2022. Emily is paid a gross monthly salary of £2,200 and has an outstanding postgraduate loan. Emily is paid monthly.

Emily also has an outstanding plan 2 student loan.

PAYE Settlement Agreement (PSA)

Gibbon Ltd has entered into a PSA with HMRC for 2021/22 as it regularly pays expenses and provides employees with minor benefits. During the year it has provided the following irregular/minor benefits which are subject to the PSA.

	<u>Cost</u> £
Employees overseas conference for two staff members. Both are basic rate taxpayers.	6,250
New staff uniforms for 40 employees.	2,000
Tickets to a football match for three staff members. All are basic rate taxpayers.	225

Requirements:

- 1) State and explain the dates of Gibbon Ltd's accounting periods for Corporation Tax purposes and the dates by which it needs to file its Corporation Tax returns. (4)**
- 2) Calculate Amar's Income Tax liability in relation to the benefits received during 2021/22. (5)**
- 3) Calculate the amount of student loan deduction(s) needed from Emily's salary in March 2022. (3)**
- 4) Calculate the total amount payable by Gibbon Ltd to HMRC for the irregular and minor benefits during 2021/22. (3)**

Total (15)

16. Bernadine, Dora and Lance trade in partnership under the name 'BDL'. During the year ended 31 March 2022 the partners made changes both to their profit share arrangement and to the number of their employees.

Profit share arrangement

Prior to 1 July 2021, profits were allocated 50% to Bernadine and 25% each to Dora and Lance. From 1 July 2021, the partners agreed that Bernadine and Dora should be allocated an annual salary of £30,000 each. They also agreed that interest of 5% per annum should be paid on each partner's capital contribution. The remaining profits are shared equally.

Bernadine had contributed £50,000 to the partnership. Dora and Lance had each contributed £100,000.

The tax-adjusted trading profits of BDL for the year ended 31 March 2022 were £256,000.

Employee changes

Clare and Sharjeel were employees of BDL until 31 January 2022 when they were made redundant. Both employees had three-month notice periods in their employment contracts but were asked to leave immediately without serving this notice.

Clare

Clare thinks the real reason she was made redundant was her age, as younger colleagues kept their jobs. She has made a claim for unfair dismissal which will be heard at an Employment Tribunal.

Sharjeel

Sharjeel had a gross salary of £4,000 per month. He received this as usual on the January 2022 payday, his final monthly salary receipt.

However, Sharjeel also received a termination payment of £45,000 (gross) from BDL on 31 January 2022, his last day of employment. This included a statutory redundancy payment of £3,400.

In February 2022, Sharjeel attended a training course to update his skills following his redundancy. It was paid for by BDL at a cost of £640. He started a new job on 1 March 2022, giving his new employer a copy of his P45 from BDL.

On 31 May 2022, Sharjeel received a further payment from BDL which was a bonus based on BDL's results for the year ended 31 March 2022.

Requirements:

- 1) **Calculate the trading profit for each partner for the year ended 31 March 2022.** (4)
- 2) **Explain the possible awards if the Employment Tribunal agrees that BDL dismissed Clare unfairly.** (3)
- 3) **Calculate Sharjeel's taxable employment income from BDL in 2021/22, briefly explaining the treatment of the payment of £45,000 and the training course.** (4)
- 4) **State BDL's payroll reporting obligations to HMRC and Sharjeel upon Sharjeel leaving the business.** (1)
- 5) **Explain the amount of Income Tax BDL should have deducted from the payment made to Sharjeel on 31 May 2022.** (3)

Total (15)

17. You work for a large firm of Tax Advisers. Your firm has recently accepted a new client See-it Ltd. The client was introduced to the firm by Sally, an accountant who has her own business.

See-it Ltd already operates a Company Share Option Plan (CSOP) but wants to start an Enterprise Management Incentive (EMI) scheme. Sally introduced your firm to the company as she felt she had insufficient expertise to advise on this. Sally will continue to act for See-it Ltd on accounting and tax compliance matters including all necessary reporting to HMRC.

See-it Ltd

The company offers individual language lessons with tutors online. The head office is in Manchester although most of the 100 employees work from home in other UK locations. There are two existing shareholders, Mavis and Bettina, who are also directors. They each own 20,000 shares.

The company is growing rapidly and Mavis and Bettina plan to sell it in two to four years' time. The market value of the shares in November 2022 is £30 per share for minority shareholdings. They aim to grow this to £45 per share by the time of sale.

In January 2015, the company granted options over 1,000 shares to each of two employees – Toby and Steph – under a Company Share Option Plan (CSOP). The options were granted with an exercise price of £25 per share, the market value of the shares at the time of grant. None of the options has yet been exercised.

Enterprise Management Incentive (EMI)

The company will grant options under an EMI scheme to Toby, Steph and three other key employees on 30 November 2022. Each employee will be granted the maximum number of options allowed under the EMI scheme. The exercise price will be £25 per share, the same as for the CSOP options.

Under both option schemes, options can only be exercised immediately before a sale of the company.

Requirements:

- 1) **Under the Professional Rules and Practice Guidelines (PRPG), explain the actions your firm should take when working alongside Sally on EMI matters for See-it Ltd. (4)**
- 2) **Write a letter to Mavis and Bettina in which you:**
 - a) **Explain, from the information given, why the company specifically qualifies for an EMI scheme, identifying any additional information you need to confirm this. Do not include the conditions which must be met by the employees and by the share options. (4)**
 - b) **Calculate the number of EMI options that will be granted to each of Toby and Steph. (2)**
 - c) **Calculate, with brief explanations, the amount charged to Income Tax on exercise of Toby's CSOP and EMI options if the sale of the company takes place in:**
 - i) **November 2024.**
 - ii) **November 2026.**

Assume a value of £45 per share on exercise in each case. (5)

Total (15)