November 2022 Examination

PAPER 3

Business Compliance

Part I and Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1.

As the total value of the gifts to each employee exceeds £50, then VAT needs to be accounted for on the gift. **(1/2)**

Robert can reclaim the £15 in the VAT return for the period in which he bought the hampers **(1/2)** so the quarter to 31 March 2022 **(1/2)** but must account for the same amount of VAT in the return covering the date on which he gifted the hampers,**(1/2)** so also the quarter to 31 March 2022.**(1/2)**

Because the VAT position of benefits is often neutral, HMRC will allow Robert to short cut the process of claiming and accounting for VAT by neither reclaiming nor accounting for VAT on gifts.**(1/2)**

As Robert is ceasing to trade, the business will no longer be eligible to be VAT registered **(1/2)**. He must cancel the VAT registration within 30 days, so by 31 January 2023. **(1/2).**

2.

To use the cash accounting scheme, a business must have taxable turnover of less than £1.35 million **(1/2)** and be VAT registered **(1/2)**. Kingsley Ltd meets these conditions.

The cash accounting scheme allows businesses to pay VAT on sales only when a customers pay **.(1/2)** and to reclaim VAT on purchases only when suppliers have been paid.**(1/2)**

Instead of VAT returns being submitted only once per year, Kingsley Ltd will now have to submit VAT returns every quarter.**(1/2)** Moreover, VAT will need to be paid every quarter also as opposed to instalments over time under the annual accounting scheme.**(1/2).**

The annual accounting scheme operates by making advance payments towards a VAT liability either on a monthly or quarterly basis plus a final payment. **(1/2)** Monthly payments are due at the end of months 4, 5, 6, 7, 8, 9, 10, 11 and 12. **(1/2)** Quarterly payments are due at the end of months 4, 7 and 10 with the final payments being due within 2 months of month 12. **(1/2)**

Maximum 4

Credit was given for any relevant point including conditions to join either scheme.

3.

There is an over provision of £47,000 for the year ended 31 March 2022 (£280,000 - £233,000).

The entries required will be:

Dr Corporation Tax charge (p&l)		£280,000
Cr Corporation Tax creditor (Balance sheet)		£280,000 **(1)**

When the actual Corporation Tax is paid the entries will be:

Dr Corporation Tax creditor	£233,000	
Cr Bank		£233,000 **(1)**
Dr Corporation Tax creditor (Balance sheet)	£ 47,000	
Cr Corporation Tax charge (p&l)		£47,000 **(1)**

4.

A close company is one which is under the control of five or fewer participators. **(1/2)** Micron Ltd will be a close company as the directors and their associates are only technically classed as one participator. So the situation is as follows:

Micron Ltd is a close company as it is controlled by five or fewer participators (including their associates): **(1/2)**

1.		No. shares
	Alfie Star	7,500
	Catherine Star	4,000
	Michael Sky	3,500

2.		
	Abbey Graham	3,500
	Aiofe Wadsworth	2,500
	Dongchen Gao	4,500
		25,500
	25,500/50,000 = 51%	

1 for control element.

As a result of the loan to a participator (Alfie Star), Micron Ltd will need to pay a s455 tax charge of 32.5% x £30,000 = £9,750 **(1/2)** on 1 January 2023. **(1/2)**

5.

Given the information in the question, it is assumed Redcoat plc is a large company for instalment purposes.

Date	Total paid to date £	Actual liability to date £	Interest due
14 July to 13 October 2021	10,000,	£15,000	Debit interest on £5,000 **(1/2)**
14 October to 31 October	27,500	£30,000	Debit interest on £2,500 **(1/2)**
1 November to 13 January 2022	32,500	£30,000	Credit interest on £2,500 **(1/2)**
14 January to 13 April 2022	52,500	£45,000	Credit interest on £7,500**(1/2)**
14 April 2022	60,000	£60,000	No further interest charged or credited

For correctly identifying debit **(1/2).** For correctly identifying credit. **(1/2).**

6.

Earnings on which contributions are payable are as follows:

Ibrahim:

(£22,000-£6,240) x 3% = £473 **(1)**

Factor Ltd:

(£22,000-£6,240) x 5% = £788 **(1)**

Earnings subject to PAYE = £21,527 (£22,000-£473) **(1)**

7. **(3 marks)**

	£	
2020/21 Basis period 1 July 2020 to 5 April 2021		**(1/2)**
£26,000 × 9/12	19,500	**(1/2)**
2021/22 Basis period 1 July 2020 to 30 June 2021	26,000	**(1)**
Overlap profits	19,500	**(1)**

8. **(maximum 3 marks)**

The company must record details of the payments to Laura including

- the amount paid to Laura **(1/2)**

- the amount of tax deducted **(1/2)**

- the amount of the payment which related to materials **(1/2)**

on both its return to HMRC for the month ended 5 March 2022 **(1/2)**

and a statement (or statements for each payment) given to Laura **(1/2)**

by 19 March 2022. **(1/2)**

The return to HMRC is made electronically **(1/2)**. The statement can be provided electronically to Laura if she agrees **(1/2)**.

9. **(4 marks)**

	Partner £	Employee £	
Trading profit/salary	45,000	45,000	
Less income tax (£45,000 – 12,570) × 20%	(6,486)	(6,486)	**(1/2)**
Less Class 2 52 × £3.05	(159)		**(1/2)**
Less Class 4 (£45,000 – 9,568) × 9%	(3,189)		**(1)**

Less Class 1 primary (£45,000 – 9,568) × 12%		(4,252)	**(1)**
Net income after IT and NIC	35,166	34,262	**(1)**

10. **(2 marks)**

The employment allowance is used to reduce the Class 1 secondary NIC payments only **(1)** so this means using £1,480 against the payment for the tax month ended 5 May 2021 **(1/2)**, £1,480 against the payment for the month ended 5 June 2021 and the remaining £1,040 **(1/2)** against the payment for the month ended 5 July 2021.

Marks are ½ for excluding Class 1 primary, ½ for excluding PAYE , ½ for identifying the relevant month to start, ½ for giving until given £4,000 in total

11. **(3 marks)**

The electronic payments are due by 22nd of the month i.e. 22 August 2021 and 22 October 2021 respectively. **(1/2)**

The first payment is more than 12 months late so there is a 10% penalty **(1/2)** of the outstanding amount £280 (£2,800 × 10%) **(1/2)**

There is an immediate penalty for the second late payment (only) of 1% of the amount paid late. **(1/2)** The second payment is six months late so there is 5% penalty **(1/2)**, and so penalty for second payment of £186 (£3,100 × 6%) **(1/2)**. Total of £466.

12. **(3 marks)**

There is no income tax charge on the monthly allowance **(1/2)** as it is exclusively for entertaining / Amvan Ltd gets no deduction for the allowance. **(1/2)**

The concert hospitality provided by the client is an exempt benefit. **(1/2)**

The annual exempt limit for a party is £150 per head. **(1)** The limit is allocated to the party with the higher cost of £135 which is exempt. The other party is taxable in full (£60 per head). **(1/2)**

13. **(maximum 2 marks)**

Stewart is a Scottish taxpayer because:

- He is UK resident **(1/2)** as he spends at least 183 days in the UK in 2021/22 **(1/2)**
- He has a close connection to Scotland **(1/2)** as he appears to have only a single place of residence which is in Scotland **(1/2)**

His tax code has prefix ‘S’. **(1/2)**

Part II

14.

1)

The amount of standard rated goods to which the VAT fraction is applied is as follows:

Quarterly gross takings including VAT x ESP of standard rated goods in last 12 months =SR supplies

ESP of all goods in last 12 months

£1,050,000 **(1/2)** x £5,520,000 **(1/2)** /£7,200,000 **(1/2)**= £805,000**(1/2)**

VAT due = £805,000 x 1/6 = £134,167 **(1)**

2)

Xi can recover the fuel element of the mileage claim. This will be:

3,700 x 11p = £407 **(1/2)**

VAT = £407 x 1/6 = £68 **(1)**

Business entertaining is blocked and so no input VAT can be recovered by Xi. **(1)**

Only the input tax in respect of employees can be recovered. So £936 x 1/6 **(1/2)**x 50% **(1)**= £78

3)

A non-corporate entity is able to form a VAT group with other companies, so long as there is control of those other companies. **(1/2).** Therefore Xi can form a group with Avonmore plc and Fellfoot plc as she has a controlling shareholding.**(1)** Bowness Ltd will not form part of the group**. (1/2)**

The main advantages of being part of a VAT group are:

- Simpler VAT accounting; as there is only one return to prepare and file each quarter. **(1/2)**
- Supplies between members are ‘outside the scope of VAT’ so there can be no issue of unrecoverable VAT on inter-company transactions. **(1/2)**

Marks will be awarded for any relevant point

4)

When Xi works in Alaska with Logodrone Inc this is a business to business (B2B) supply and the place of supply is where the customer belongs. **(1)** So, this will be in Alaska. It is not a UK supply and Xi should not add UK VAT to her invoices. **(1/2)**

When Xi gives advice to Ellen, as Ellen is an individual and is not acting in a business context, this is a business to consumer transaction (B2C). The place of supply is therefore where the supplier belongs. **(1)** Xi belongs in the UK, therefore this is a UK supply and UK VAT will need to be charged. Xi needs to add VAT to her UK invoices. **(1/2)**

The consultancy service with the technology company is a B2B transaction and is subject to a mandatory reverse charge. **(1/2)** The general rule is where the customer belongs, so if the supplier is overseas but the customer belongs to the UK, it is a UK supply and UK VAT must be accounted for and paid to HMRC.**(1/2)** The customer includes the output VAT on their VAT return, **(1/2)**and where they can reclaim VAT, they also include this as input tax to recover. **(1/2)** So as Xi is based in the UK, the reverse charge provisions will apply.

15.

1) There will be three accounting periods for Gibbon Ltd:
   - 1 January 2020 to 29 February 2020 as it first acquires a form of chargeable income on 1 January until it commences to trade **(1)**
   - 1 March 2020 to 31 January 2021 when trade commences to the end of the first period of account **(1)**
   - 1 February 2021 to 31 January 2022 is the next period of account **(1/2)**

The corporation tax returns are due on :

- 12 months after the end of the period of account, as the period of account is less than 18 months **(1/2)**. Therefore, the returns are due by 31 January 2022 for the first two accounting periods **(1/2)** and 31 January 2023 in respect of the accounting period from 1 February 2021 to 31 January 2022. **(1/2)**

2)

- Relocation expenses up to £8,000 are exempt, **(1/2)**therefore excess of £1,500 is subject to Income Tax.**(1/2)**
- For living accommodation, there will be a benefit based on the annual value of the property of £12,200 **(1/2)** and an additional expensive living accommodation benefit of (£425,000-£75,000) x 2% = £7,000. **(1/2)** The total benefit of £19,200 will be pro rated by 10/12ths for non availability, **(1/2)**= £16,000
- The petrol car benefit is calculated by the relevant % x list price. As the car is registered post 2020, the relevant percentage = 30%((130-75)/5 +19). **(1/2)** The car benefit is 30% x £25,400 **(1/2)**= £7,620 x 10/12 = £6,350.**(1/2)**
- There will also be a fuel benefit of £6,150 (£24,600 x 30% x 10/12). **(1/2)**

Total benefits of £30,000 will be subject to income tax at 40% and income tax due = £12,000 **(1/2)**

3.

The postgraduate loan deduction is calculated as follows:

The pay period threshold for postgraduate loans is £1,750 **(1/2) ,** so the amount that will be deducted from Emily's earnings is:

(£2,200-£1,750) = £450.**(1)**

The excess is then multiplied by 0.06 = £27**(1/2)** This is rounded down to the nearest £

No deduction will be made in respect of the plan 2 loan as her pay is below the threshold of £2,274.58. **(1).**

4.

Class 1B is calculated on the cost of the benefit to the employer plus the income tax payable.

Details	**Cost** **£**
Employees overseas conference for 2 staff members. Both are basic rate taxpayers	6,250
Income tax due **(1)**	1,563
Staff uniforms**(1/2)**	Exempt
Tickets to a football for 3 staff members. All are basic rate taxpayers	225
Income tax due **(1)**	56

Total amount on which Class 1B is payable is £8,094

Class 1B x 13.8% = £1,117. **(1/2)**

Credit was also given for alternative answers:

	£	£
Overseas conference (net)	6,250	
Gross x 100/80	7,813	
IT (20% of gross)		1,563
Class 1B 13.8% of gross		1,078
Football match (net)	225	
Gross x 100/80	281	
IT (20% of gross)		56
Class 1B 13.8% of gross		39
Total IT and NIC payable		2,736

16.

1) **Trading profit allocation per partner (4 marks)**

	Bernadine	Dora	Lance	Total	
	£	£	£	£	
1 April 2021 – 30 June 2021					
£256,000 × 3/12 **(1/2)** 50:25:25 **(1/2)**	32,000	16,000	16,000	64,000	
1 July 2021 – 31 March 2022					
£256,000 × 9/12				192,000	
Salary 9/12 × £30,000 **(1/2)**	22,500	22,500		(45,000)	
Interest 9/12 **(1/2)** × 5% × £50,000:£100,000:£100,000 **(1/2)**	1,875	3,750	3,750	(9,375)	
				137,625	**(1/2)**
PSR 1:1:1	45,875	45,875	45,875		**(1/2)**
	102,250	88,125	65,625		**(1/2)**

2) **Awards for unfair dismissal (3 marks)**

Re-instatement in the same job **(1/2)**

Re-engagement in another suitable job with BDL **(1/2)**

Compensation **(1/2)**, which may comprise:

Basic award, calculated in the same way as statutory redundancy pay **(1/2)**

Compensatory award, based on the employee's losses including future losses **(1/2)**

Punitive additional award, given if BDL does not comply with an order to re-instate or re-engage **(1/2)**

3) **Sharjeel's taxable employment income (4 marks)**

	£	
Salary April – Jan 10 × £4,000	40,000	**(1/2)**
Payment 31 January 2022:		
Statutory redundancy payment is exempt	0	**(1/2)**
PENP - equivalent of three months of salary is treated as payments in lieu of notice which are fully taxable **(1/2)** 3 × £4,000 **(1/2)**	12,000	
Remaining £29,600 (£45,000 – £12,000 – £3,400) is taxable **(1/2)** to the extent it exceeds £26,600 (£30,000 – £3,400) **(1)**	3,000	
Training course is exempt on redundancy	0	**(1/2)**
	55,000	

4) **Payroll reporting obligations re leaver (1 mark)**

BDL must include the date of Sharjeel leaving on the FPS of his final payment **(1/2)**.

BDL must prepare a form P45 to give to Sharjeel **(1/2)**

5) **Income tax deduction on payment after leaving (3 marks)**

This is a taxable payment received after the form P45 has been issued/employment has terminated **(1/2)**.

Therefore income tax must be deducted using tax code 0T on a month one basis **(1/2)**.

No personal allowance is available **(1/2)** and so up to the amount of the payment, 1/12th **(1/2)** of the basic rate band is taxed at 20% **(1/2)**, 1/12th of the higher rate band taxed at 40%, and any excess taxed at 45%. **(1/2)**

Candidates are not required to mention all rates for full marks as the amount of the payment is deliberately not given, but an indication of the incremental rates is required for the final ½ mark.

17.

1) **Working alongside other professional advisers** **(maximum 4 marks)**

Define clearly the respective areas of responsibility **(1/2)** and record this in the engagement letter **(1/2)**. This should record that the firm will advise on the EMI scheme but will not perform the necessary annual returns. **(1/2)**

Carefully observe the duty of client confidentiality **(1/2)**. In cases of doubt, obtain permission or instructions from the client **(1/2)** preferably in writing, ideally in the engagement letter **(1/2)**.

Advise the client of the advantages of permitting appropriate communication between the firm and Sally for efficiency **(1/2)** but ensure the client still makes the key decisions **(1/2)** and is fully aware of relevant discussions between the firm and Sally **(1/2)**.

The firm is aware that Sally will need certain information about the EMI scheme to complete accounts and returns **(1/2)** so if direct communication is not authorised by the client, the firm should draw the client's attention to the matters on which Sally should be informed **(1/2)**.

2)

Accountancy firm
Address

See-it Ltd
Address

Dear Mavis and Bettina

I enclose advice and calculations regarding the planned Enterprise Management Incentive (EMI) scheme and ask for further information.

(a) **Qualification of the company for an EMI scheme** **(4 marks)**

(letter format 1 mark)

The company has a permanent establishment in the UK **(1/2)** and carries on a trade **(1/2)** of online language lessons which is not an excluded trade. **(1/2)**

The company has 100 employees in total which is fewer than 250 full-time employees. **(1/2)**

See-it Ltd is not controlled by another company as it is controlled by you both as individuals. **(1/2)**

I also require additional information to confirm the company qualifies for the scheme.

Please confirm that the total gross assets of the company do not exceed £30m. **(1/2)**

(b) **Number of options granted** **(2 marks)**

For Toby and Steph, the maximum value of the EMI options they can each receive (£250,000) is reduced by the value of their CSOP options (at grant), and so is:

£250,000 **(1/2)** – £25 **(1/2)** × 1,000 **(1/2)** = £225,000

Therefore, the maximum number of EMI options granted to each is £225,000/£30 = 7,500 **(1/2)**

(c) **Exercise of options** **(maximum 5 marks)**

(i) November 2024

On the exercise of Toby's CSOP options there is no income tax charge **(1/2)** as the exercise is within 10 years of grant **(1/2)**.

On the exercise of Toby's EMI options, income tax is charged as the options were granted at a discount:

	£	
Lower of:		**(1/2)**
Market value of grant of options, £30		**(1/2)**
Market value on exercise of options, £45	30	**(1/2)**
Less exercise price (£25)	(25)	**(1/2)**
	5	
Toby's taxable amount 7,500 (own figure) × £5	£37,500	**(1/2)**

(ii) November 2026

On the exercise of Toby's CSOP options income tax is charged as exercise is after more than 10 years:

	£	
Market value on exercise of options, £45	45	**(1/2)**
Less exercise price (£25)	(25)	**(1/2)**
	20	
Toby's taxable amount 1,000 × £20	£20,000	**(1/2)**

On the exercise of Toby's EMI options, as this is within 10 years of exercise, the calculation is the same as above £37,500 **(1/2)** giving a total amount chargeable of £57,500.

Yours sincerely

A Tax Technician