
CIOT - ATT-CTA

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 1**

Answer-to-Question-_1_

Deregistration threshold is £83,000.

The business must notify HMRC within 30 days.

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

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

Answer-to-Question-_2_

In order to join the cash accounting scheme, a business must satisfy the following conditions:

- there must be reasonable grounds for believing that, over the next 12 months, the value of taxable supplies will not exceed £1.35 million;
- all of the VAT return submissions must be up to date, with any outstanding VAT paid;
- no VAT offences can have been committed by the business in the previous 12 months; and
- no VAT penalties can have been received by the business for evading VAT where, in the previous 12 months, they have been accused of dishonest conduct.

For Kingsley Ltd, the main difference between the cash accounting scheme and the annual accounting scheme is that, under the cash accounting scheme, Kingsley Ltd will account for VAT in respect of when money is received and money is paid.

This differs from the annual accounting scheme, where a single VAT return is submitted, with interim payments made during the year.

As taxable turnover for Kingsley Ltd is expected to be £500,000 for the next few years, provided all other conditions are met, they will not have to leave the annual accounting scheme for the next few years (until taxable turnover exceeds £1.6 million).

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

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

Answer-to-Question-_3_

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

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

Answer-to-Question-4_

A close company is a company that is resident in the UK, and controlled by either:

- five or less participators; or
- any number of participator directors.

When looking at the shareholding, both the individual and their associates' shareholdings are considered.

For Micron Ltd, there are the following connected parties:

1. Alfie Star, Catherine Star, Michael Sky
2. Abbey Graham, Aoife Wandsworth, Dongchen Gao
3. Glen McKie

Party	Share ownership, %	Workings	
1	30	(7,500 + 4,000 + 3,500) / 50,000	
2	21	(3,500 + 2,500 + 4,500) / 50,000	
3	2	1,000 / 50,000	

Just between parties 1 and 2, they together own 50% (i.e. over 51%) of the share capital, meaning that this is considered a close company (along with the fact that Micron Ltd is based in the UK).

When a close company makes a loan to a shareholder, such as the £30,000 loan made to Alfie Star, an s.455 charge is made

on the company.

This charge is at 32.5%, meaning the charge is £9,750.

The due date will be 9 months and 1 day after the accounting period end, which is 1 January 2023.

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

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

Answer-to-Question-_5_

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

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

Answer-to-Question-_6_

Minimum contribution made to the pension scheme:

	£		
EE contributions			
Annual salary x 3%: 22,000 x 3% = 660			
Gross up: 660 x 100/80	825		
ER contributions			
Annual salary x 5%: 22,000 x 5% = 1,100	1,100		
Minimum contributions	1,925		

Earnings subject to PAYE for 2021/22:

	£		
Gross pay	22,000		
Less: EE contributions	(825)		
Earnings	21,175		

subject to PAYE			

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

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

Answer-to-Question-_7_

	Trading profits, £	Workings	
First tax year: 1 July 2020 - 5 April 2021	19,500	26,000 x 9/12	
Second tax year: 1 July 2020 - 30 June 2021	26,000		
Third tax year: 1 July 2021 - 30 June 2022	37,000		
Overlap: First tax year	19,500		

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

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

Answer-to-Question- 8_

As Laura is registered with HMRC but fails the gross payment test, deductions of 20% will be withheld from the costs of labour, travelling expenses/subsistence, the profit element on materials, and the use of her own equipment.

These deductions of 20% tax are made by Builz Ltd and paid to HMRC.

Builz Ltd has a minimum requirement to provide Laura with at least one payment slip/statement per month, due on the 19th of each month.

Builz Ltd's payment slip/statements must include the contractor's name ('Builz Ltd') and reference, details on the payment, and details on any material deductions.

This can be provided to Laura either electronically or in writing.

If Builz Ltd fails to submit this, they will incur penalties of £300 for the initial missed submission deadline and £60 a day for continued failure.

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

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

Answer-to-Question-9_

1) As a partner, Zara's net income after income tax and NICs would be as follows:

	£			
Salary	45,000			
Class 2 NIC: £3.05 p/w = 3.05 x 52	159 (rounded up)			
Class 4 NIC: (45,000- 9,568) @ 9%	3,189 (rounded up)			
Salary less PA:	(12,570)			
Income	32,430			
Tax @ 20%	(6,486)			
Net income less income tax and NIC	22,596			

2) As an employee, Zara's net income after income tax and NICs would be as follows:

	£	Workings	
Annual Salary	45,000		

Monthly Salary	3,750		
Class 1 primary NIC	(2,953)	(3,750 - 797)	
/12	(246)	x 12%	
Annual salary less PA: 45,000 - 12,570	32,430		
Tax @ 20%	(6,486)		
Net income	25,944		
/12	2,162		

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

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

Answer-to-Question-_10_

The employment allowance allows eligible employers to deduct a maximum of £4,000 from their Class 1 secondary NICs liability for the tax year.

If Concar Ltd is eligible, it would be able to deduct this amount from their Class 1 secondary NIC liability. As the total amount for the year is:

$12 \times £1,480 = 17,760;$

They could deduct £4,000 to make this liability £13,760 for the 2021/22 tax year.

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

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

Answer-to-Question-_11_

PAYE and class 1 NIC is due on the 22nd of the calendar month when made electronically.

For the month ended 5 August 2021, this was due on 22 August 2021.

For the month ended 5 October 2021, this was due on 22 October 2021.

Therefore both of these payments were made late, and penalties will be incurred for Sophie.

The first late payment of tax does not count as a default.

As this is Sophie's 1st default, a penalty of 1% of the tax and NICs paid late will be due to HMRC.

	Penalty, £		
(3,100 + 2,800) @ 1%	59		

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

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

Answer-to-Question-_12_

The round sum allowance of £200, as this is for qualifying business expenses, is exempt from tax and NICs and does not need to be reported to HMRC.

Both the parties provided by the company fall below the £150 per head exemption for tax. However, when combined over the tax year, the total cost over the tax year exceeds this limit.

Therefore, it would be best to claim the exemption on the larger party in January 2022 costing £135 per head. The small summer party will be classed as a benefit in kind, and therefore subject to class 1A NIC at 13.8%.

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

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

Answer-to-Question-_13_

As Stewart spends over 183 days in the UK (330 total), he will be classed as a UK resident - this is a requirement to be a Scottish taxpayer.

Stewart will be considered a Scottish taxpayer as he only has a single 'place of residence', which is Scotland - this is classed as a close connection.

As a Scottish taxpayer, Stewarts taxcode will have an S prefix.

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

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Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 2**

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

Answer-to-Question-_14_

1)

Output VAT for the quarter ended 31 March 2022
 (Apportionment scheme 2)

	£		
Gross daily takings	1,050,000		
ESP of SR goods received in the last 12 months including VAT		5,520,000 (a)	
ESP of all goods received in the last 12 months including VAT		7,200,000 (b)	
		Divide: a/b	
		0.7666666 (c)	
Takings x (c)	804,500		

2)

	£		
3,700 x 45p: £1,665			
HMRC allow mileage at 45p for the			

first 10,000 business miles			

The staff party is exempt if it falls within the £150 per head limit, including VAT.

Input VAT cannot be reclaimed on client entertaining.

3)

To be eligible for group registration:

- the entity must be a body corporate (this is fulfilled);
- the body corporate must be established in the UK (this is fulfilled);
- the companies are under common control of the same person(s), more than 50%.

All corporate entities are established in the UK so this is fulfilled for all companies Xi wishes to invest in.

The third condition would be fulfilled for Avonmore plc with 75% of share ownership, it is not fulfilled for Bowness Ltd as this is only 30% of share ownership, and it is fulfilled for Fellfoot plc at this is 60% ownership.

Therefore, 3 companies will be in the group.

The advantages of group registration are as follows:

- it simplifies the accounting process, making it simpler for Xi;
- it makes the group's affairs more centralised, and reduces the overall compliance burden as only one return needs to be submitted per group;
- any supplies between the group members is disregarded; and
- if any of the invested companies would usually be exempt

from VAT, they can register for VAT now.

4)

For the export of goods leaving the UK, these will be treated as having a UK place of supply.

For the export of services leaving the UK, if this is supplied to a business, the place of supply will be where the recipient belongs (i.e. Alaska), as is the case on the research and development of new drones.

For the export of services leaving the UK, if this is supplied to a consumer, the place of supply will be where the supplier belongs (i.e. UK), as is the case for the consultancy services provided for the Logodrone Inc's director's wife, Ellen.

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

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

Answer-to-Question-_15_

1)

Accounting period (AP) 1: 1 January 2020 - 28 February 2020
 This period begins on the acquisition on a source of income,
 and ends just before the commencement of trade.

AP2: 1 March 2020 - 31 January 2021
 This period begins on the commencement of trade, and ends at
 the end of the company's period of account.

AP3: 1 February 2021 - 31 January 2022
 This period begins immediately after the end of the previous
 accounting period, and ends 12 months after it began.

For AP1 and AP2, Gibbon Ltd will file a single corporation
 tax (CT) return 12 months after the period of account for
 both APs; this is by 31 January 2022.

For AP3, Gibbon Ltd will file a CT return by 31 January 2023.

2)

	£		
Qualifying relocation expense in excess of £8,000	1,500		
Employer owned accomodation			
Annual value: 12,000 x 8/12	8,000		
Add:	4,667		

additional yearly rent: (425,000 - 75,000) x 2% x 8/12			
Car benefit			
List price: 25,400			
Emission based %: 19 + (130-75)/5 = 30			
25,400 x 30% x 8/12	5,080		
Total benefits:	19,247		
Higher rate taxpayer: 19,247 @ 40%	7,699		

3)

Postgraduate loan

	£		
Monthly salary	2,200		
Less: limit	(1,750)		
Excess	450		
Excess @ 6%	27		

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

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

Answer-to-Question-_16_

1) Trading profit per partner for y/e 31 March 2022

	Total, £	Bernadine, £	Dora, £	Lance, £
AP: 1 April 2021 - 30 June 2021				
Tax adjusted profit: 256,000 x 3/12	64,000			
Profit share: 50:25:25	(64,000)	32,000	16,000	16,000
Profits per partner		32,000	16,000	16,000
AP: 1 July 2021 - 31 March 2022				
Tax adjusted profit: 256,000 x 9/12	192,000			
Less: Salaries Bernadine and Dora	(45,000)	22,500	22,500	-

30,000 x 9/12				
	147,000			
Less: Interest on capital	(9,375)	1,875	3,750	3,750
Bernadine: 50,000 x 5% x 9/12				
Dora and Lance: 100,000 x 5% x 9/12				
	137,625			
Profit share 1:1:1	(137,625)	45,875	45,875	45,875
Profits per partner		70,250	72,125	49,625
Profits for the year		102,250	88,125	65,625

2)

If BDL dismissed Clare unfairly, she may be awarded:

- reinstatement in the same job at BDL;
- re-engagement in another suitable job with BDL;
- compensation.

Compensation may comprise of 3 elements for Clare:

- basic award, calculated as the same was as statutory redundancy pay;
- compensatory award, based on Clare's losses which can also include future losses (Clare has a duty to mitigate her loss);
- punitive additional reward, given if Clare has not

complied with an order of reinstatement or re-engagement (and it was not considered impracticable to do so).

3)

Sharjeel's taxable employment income from BDL in 2021/22

	£	Notes	
Salary from April - January: 4,000 x 10	40,000		
Termination payment Less: Statutory redundancy payment, £3,400 Less: £30,000 exemption limit	11,600	The first £30,000 is exempt, and the rest is taxed as top slice income	
Post employment notice pay: 4,000 x 3	12,000		
Training course	Nil	The training course is fully exempt from tax, as it to help him find a new job	

Less: PA	(12,570)		
Taxable employment income	51,030		

4)

BDL must inform HMRC that Sharjeel has left the business.

5)

As Sharjeel was paid a bonus as a reward for past services completed by Sharjeel, this will be taxed as normal earnings and subject to class 1 NICs. This is taxed in the tax year in which the bonus is paid, 2022/23.

Basic pay is multiplied by days in the notice period, and divided by the number of days in the pay period immediately preceding the period when the termination payment was made. From this, amount paid on termination that are already deductible as earnings are deducted.

	£		
(4,000 x 90) / 120	3,000		

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

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

Answer-to-Question-_17_

1)

When working alongside Sally on EMI matters for See-it Ltd, the firm should be careful to observe their duty of client confidentiality.

In cases of doubt, the firm should always obtain See-it Ltd's permission/instructions, preferably in writing, which should ideally be outlined in the engagement letter.

The firm should advise See-it Ltd on the advantages of permitting appropriate communication, relevant to the EMI work, between the advisers in order to efficiently progress the matter.

However, the firm should also ensure that See-it Ltd makes key decisions and is aware of relevant discussions between all involved advisers.

If the firm is unsure of anything pertaining to the EMI scheme regarding a conflict of interest or confidentiality rules, this should be brought to the client's attention.

2)

[Client Address]
[Firm name and address]
[Date]

Dear Mavis and Bettina,

EMI and CSOP queries

Please find outlined below our response to your EMI and CSOP queries.

a) Company qualification for the EMI scheme

To qualify for an EMI scheme a company must be a small trading company with assets of no more than £30 million and fewer than 250 full-time employees.

As See-it Ltd has 100 employees, this criteria is fulfilled. We will need more information on the value of your assets to determine eligibility.

The company must also not conduct prohibited trades, such as financial activities and legal services. Through providing language lessons online, this criteria is fulfilled. Please let us know if you provide any additional services that may make your company ineligible otherwise.

b) Number of EMI options granted to Toby and Steph

The number of EMI options granted to Toby and Steph is 10,000, as outlined in Appendix 1.

c) Amount that Toby will be charged to income tax on exercise of CSOP and EMI options

The total amounts charged to income tax are outlined in Appendix 2.

I hope the above is clear. Please let me know if you have any further queries.

Yours sincerely,
Tax Adviser

Appendix 1: Total EMI options

	£	Shares	
Maximum value per employee	250,000		
Exercise price	25		

250,000/25:		10,000	

Appendix 2: Toby's income tax charge

i)

November 2024	£	Notes:	
EMI: Lower of MV at grant: MV at exercise: £25 x 10,000	45,000	Exercised within 10 years of grant, so income tax is charged on exercise	
Less: Option price	(20,000)		
Employment income	25,000		
CSOP	Nil	Disposed within 3-10 years from grant, so no income tax charge on exercise	

ii)

November 2026	£	Notes:	
EMI	Nil	Exercised after 10 years of grant, so no income tax charge on exercise	
MV at grant: £25			
MV at exercise: £45			
CSOP		Disposed outside of 3-10 years from grant, so income tax is charged on exercise	
MV at exercise: £45 x 1,000	45,000		
Less: option price £25 x 1,000	(25,000)		
Charged to income tax	20,000		