

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 3 BUSINESS COMPLIANCE

**May 2023**

---

TIME ALLOWED

3 HOURS 30 MINUTES

---

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Bobby runs a business buying a range of goods from suppliers and selling them on to the general public. Bobby uses Apportionment Scheme 1 for VAT. During the quarter ended 31 March 2023, Bobby bought the following goods for resale:

<u>Type of supply</u>	<u>VAT inclusive cost</u>
	£
Standard rate	18,000
Reduced rate	3,000
Zero rate	5,000

Bobby had gross takings of £37,000 during the quarter ended 31 March 2023.

**Calculate the input VAT, output VAT and VAT payable for the quarter ended 31 March 2023.** (3)

2. Yunfan is a new VAT registered trader with turnover of £55,000 per annum. He is considering whether to use a compatible software package for Making Tax Digital purposes.

**Explain:**

**1) The functions that a compatible software package must perform for Making Tax Digital purposes.**

**2) What Yunfan must do if he has non-compatible software.**

(3)

3. Adam is a VAT registered sole trader with a 31 March VAT year end. On 1 November 2022, Adam incorporated the business and subscribed for the entire share capital of Woozle Ltd in exchange for the trade and most of the assets of the sole trader business. The sole trader business ceased to trade at that point.

**Explain the process for the VAT deregistration of Adam's sole trader business and how the assets of the sole trader business that were not transferred to the company are treated for deregistration purposes.** (3)

4. Aled is a VAT registered trader, using the flat rate scheme, running a computer repair business. The relevant flat rate for this sector is 10.5%.

During the quarter ended 31 December 2022, sales of £21,575 were made. Purchases in the period were £6,212. Both of these amounts are inclusive of VAT at 20%.

**Show the journal entries to record the transactions. State the balance on the VAT account for the quarter ended 31 December 2022 and whether it is a debtor or creditor.** (3)

5. Lucas Murphy was employed by Herb Ltd from 1 November 2022. On that date he was provided with a car which had a list price of £27,500 when it was registered on 1 May 2019. It has CO<sub>2</sub> emissions of 35g/km and an electric range of 85 miles. Lucas pays for any petrol.

Lucas was also provided with a house to live in, which is owned by Herb Ltd. Herb Ltd had originally bought the house in April 2016 for £65,000. Its market value on 1 November 2022 was £130,000. The house has an annual value of £9,500. Lucas pays rent to Herb Ltd of £100 per month to live in the house.

Herb Ltd pay the council tax, water and energy bills for the house. The total cost of the bills from 1 November 2022 to 5 April 2023 was £3,250.

**Calculate, with supporting explanations, the assessable amount of the benefits for 2022/23.** (4)

6. Mohsin Ali is an IT consultant and is the sole director and shareholder of Technix Ltd. Technix Ltd has recently been awarded a three month contract to supply services to Dent plc, a large company under Companies Act 2006.

Technix Ltd invoices Dent plc for an agreed fee of £18,000 per month. All work will be undertaken on Dent plc's premises and Dent plc will supply all equipment. Mohsin is required to be on Dent plc's premises from 8.30am to 4.30pm every day. Mohsin will work exclusively for Dent plc.

**Explain whose responsibility it is to determine whether the off-payroll working rules apply to this contract. Explain the implications for both Dent plc and Mohsin if the contract is deemed to be within the scope of off-payroll working.** (4)

7. Kit is a director earning a salary of £2,900 per month throughout 2022/23. He also received a bonus of £40,000 in December 2022.

Kit used his own car for company business, driving 1,300 business miles per month. His employer paid him 50p per business mile.

**Calculate Kit's primary Class 1 National Insurance Contributions for 2022/23.** (4)

8. During 2022/23, two employees of Vade Ltd had periods of absence from work.

Alison was a student before starting work for Vade Ltd on 1 July 2022. Alison's baby was due on 14 February 2023 and she started maternity leave on 6 February 2023. Vade Ltd did not pay Statutory Maternity Pay.

Roger has been off sick since May 2021. Vade Ltd did not pay Statutory Sick Pay during 2022/23.

**Using the information given, explain why Vade Ltd was not required to make the statutory payments to each employee.** (2)

9. Bigko plc paid salaries and commissions to employees. It also provided car benefits. The gross amounts paid and the taxable amounts of the car benefits for the first three tax months of 2022/23 are:

<u>Month ended</u>	<u>Salary</u> £	<u>Commissions</u> £	<u>Benefits</u> £
5 May 2022	800,000	50,000	9,000
5 June 2022	800,000	70,000	9,000
5 July 2022	<u>800,000</u>	<u>20,000</u>	<u>9,000</u>
Total	<u>2,400,000</u>	<u>140,000</u>	<u>27,000</u>

Bigko plc had paid total apprenticeship levy of £6,100 for the first two months ended 5 June 2022.

**Calculate the apprenticeship levy due for the tax month ended 5 July 2022.** (3)

10. Yogalita Ltd prepared its accounts for the 15-month period ended 31 March 2023.

**Explain Yogalita Ltd's Corporation Tax return filing obligations for the 15-month period of account.** (2)

11. Kate is a Scottish taxpayer, with a salary of £80,000 in 2022/23. She owed Income Tax of £3,500 for 2021/22.

**State Kate's tax code for 2022/23.** (2)

12. Nathan left employment with AT2 Ltd on 31 August 2022, after serving his notice period. He received the following termination package which was neither contractual nor expected.

AT2 Ltd paid Nathan cash of £45,000 and contributed £3,000 to Nathan's personal pension scheme.

As part of the package, Nathan was also allowed to continue using a company camera until 30 September 2022, when he returned it to AT2 Ltd. The camera had a market value of £2,000 when first provided new for Nathan's private use in 2021. The value had fallen to £1,200 by 31 August 2022.

AT2 Ltd paid Nathan a further £12,000 for his agreement not to work for a competitor for one year. The company paid a college £850 for a training course for Nathan to learn skills for a new career.

**Calculate the amount of Nathan's termination package which is chargeable to Income Tax, clearly identifying payments as fully taxable, partially exempt or fully exempt. (4)**

13. Judd is an employee of Pool plc, a company listed on the London Stock Exchange. He is paid on the last day of each month.

In 2022/23, Judd's net monthly pay after deductions was £10,000. This is before taking account of an award of shares in Pool plc made on 31 December 2022. The award was not made under a tax advantaged scheme.

Judd's taxes due on the share award were:

	£
Income Tax	22,500
Class 1 primary National Insurance Contributions	1,625

**Explain Pool plc's obligations to collect and pay these taxes to HMRC. (3)**

## PART II

**Presentation skills** – awarded for quality of presentation.

(2 marks)

14. Morfen Puppet Company (MPC), is a client of your firm. MPC is a VAT registered business and runs a chain of shops across Great Britain (GB) selling bespoke toys, puppets and children's books.

It imports many of its goods for resale from other countries and also exports handmade toys abroad. MPC uses postponed VAT accounting.

During the quarter ended 31 March 2023, there were the following transactions:

- 1) UK sales of toys totalling £28,000, and children's books totalling £3,000.
- 2) Import of toys from India costing £25,000 for resale within GB.
- 3) Import of toys from Northern Ireland costing £1,250.
- 4) Export of puppets to South Africa with a selling cost of £4,220.
- 5) Import of children's reading books costing £4,670 from France.
- 6) MPC would like to increase its sales to South Africa, so paid £2,400 for some marketing consultancy services from a business in South Africa.

All amounts above are VAT exclusive, where appropriate.

### Late payment

MPC has asked for your advice about a notice they have received from HMRC because of late filing and payment of VAT. Prior to this, MPC have always submitted returns and paid VAT on time. MPC's turnover is less than £150,000 each year.

You have obtained the following information from MPC's client files:

<u>Quarter ended</u>	<u>VAT return submitted</u>	<u>VAT amount due</u> £	<u>Date VAT paid</u>
31 March 2022	28 May 2022	10,000	30 May 2022
30 June 2022	20 July 2022	8,000	7 August 2022
30 September 2022	9 November 2022	7,000	15 November 2022
31 December 2022	10 February 2023	6,000	20 February 2023
31 March 2023	Estimated 5 May 2023	To be confirmed	Estimated 7 May 2023

### Purchase of Grantley Toys

MPC has recently agreed to buy the trade and assets of Grantley toys, a VAT registered business, which has a shop in the seaside town of Morecambe, selling similar items to MPC.

The owner of Grantley toys has agreed to accept £350,000 from MPC for the shop premises, stock, goodwill and fixtures and fittings. The purchase should be completed on 30 May 2023 and MPC will immediately carry on trading from the premises and over time, will introduce some of their stock into the shop.

Grantley toys also has another shop in Blackpool which it will continue to operate.

### **Requirements:**

- 1) **Calculate MPC's VAT liability to be shown on the VAT return for the quarter ended 31 March 2023. Show treatment of each item. Explain how the VAT liability on the return would differ if MPC used the duty deferment scheme.** (6)
- 2) **Explain how the late filing penalty regime applies to MPC if the return to 30 June 2023 or any other future return, is submitted late. Assume that the Finance Act 2021 penalty regime has applied throughout.** (6)
- 3) **Explain how the purchase of Grantley Toys will be treated for VAT purposes.** (4)

Total (16)

15. Peggy Yang has recently become a client of the firm of tax advisers where you work. Peggy operates a business making and selling skincare products online.

Peggy started to trade on 1 January 2020 and prepared her first set of accounts for the 18 month period to 30 June 2021 and had tax-adjusted trade profits of £49,500.

Her next set of accounts for the year ended 30 June 2022 had tax-adjusted trade profits of £57,600.

As her business has expanded quickly, Peggy intends to recruit two new staff on 1 June 2023.

Adam Trott is 38 years old and has been offered a salary of £35,000 per annum for working full time in the business. Adam has a baby and has asked Peggy about the tax-free childcare scheme.

Mary Fields is 45 years old and has been offered a salary of £5,760 per annum as she will only be working one day per week in the business.

Both employees will be paid monthly.

**Requirements:**

- 1) Calculate Peggy's assessable trading income for all tax years since start of her trade, stating the basis periods and the amount of any overlap profits arising. (4)
- 2) Explain by when Peggy needs to register with HMRC for PAYE, and whether any deductions will be reported to HMRC for Adam and Mary. (3)
- 3) Explain how and why Adam is eligible for the tax-free childcare scheme and how it will operate for him. (2)
- 4) Explain why Adam will have to be enrolled in a workplace pension scheme and why Mary doesn't. (2)
- 5) State the duties implied by common law within an employment contract for Adam and Mary as employees. (3)

Total (14)

16. Haulbig Ltd is a haulage company, delivering goods across the UK and Europe. The company owns a UK head office and vehicle depots which are used in its trade. It also owns UK warehouses which it rents out.

Expenditure on buildings

Haulbig Ltd incurred the following costs extending its Hull warehouse between March 2022 and December 2022:

	£
Groundwork for drainage	250,000
Construction work	<u>3,100,000</u>
	<u>3,350,000</u>

In January 2023, Haulbig Ltd incurred the following building costs:

	£
<u>Liverpool vehicle depot:</u>	
Construction of new toilet block	80,000
<u>Kent warehouse:</u>	
Construction of staff room	100,000
Resurfacing of roads around warehouse	20,000
Architects' fees	<u>5,000</u>
	<u>205,000</u>

*Continued*

## Continuation

### Ria

Ria is employed by Haulbig Ltd. Prior to 2022/23 she worked at the UK head office and was both UK resident and UK domiciled. She continued working at the UK head office until 31 January 2023. On 1 February 2023, the company seconded Ria for three years to the company's depot in the Netherlands, where she works full-time.

### Dan

Dan works in the UK head office earning an annual salary of £80,000. He incurred the following expenses in 2022/23 which Haulbig Ltd did not reimburse:

	£
Online course to learn Dutch (Note)	100
Membership fee for professional institute, on HMRC's approved list	400
Season ticket for daily train travel from home to head office	1,900

Note: English is the language used in the Netherlands depot but Dan wanted to learn some Dutch to be polite. Dan visited the depot in March 2023. He stayed 20 nights in the Netherlands while working at the depot. His daughter Lisa, aged 16, joined him for five nights.

Haulbig Ltd reimbursed Dan for the following expenses of the Netherlands trip:

	£
Plane ticket for Dan	600
Plane ticket for Lisa	500
Dan's hotel room and meals	2,400
Restaurant bill for Dan entertaining potential clients	800
Dan's hotel laundry bill	230

### Requirements:

- 1) **Explain whether Haulbig Ltd must apply the rules of the Construction Industry Scheme (CIS) to each of the costs incurred in January 2023.** (4)
- 2) **Explain the effect of the secondment on Ria's residence and domicile status in 2022/23 and how much of her salary is charged to UK Income Tax in that year.** (4)
- 3) **Calculate Dan's taxable employment income in 2022/23, clearly showing your treatment of each expense.** (4)

Total (12)

17. Your firm provides tax services to Hat Ltd, a UK resident manufacturing company, and its directors. The company prepares accounts to 31 December each year and does not pay Corporation Tax by instalments. Hat Ltd has always been a close company.

### Shareholdings

Until 30 April 2022, Hat Ltd had 1,000 shares owned equally by 10 individual shareholders. These shareholders include Sam, Evan, Colette and Debra.

Sam and Evan are directors of Hat Ltd with annual salaries of £150,000 each. The other eight individuals do not work for the company. Colette and Debra are married to each other. These shareholders are otherwise unconnected.

On 1 May 2022 four employees exercised options, each receiving 50 new shares issued by the company. The options had been granted under an EMI scheme on 1 January 2013. One of the employees is Paul, Debra's son.

*Continued*

	<u>£ per share</u>
Exercise price	10
Market value at 1 January 2013	26
Market value at 1 May 2022	100

Hat Ltd remains a close company after exercise of the options.

Loans from Hat Ltd

Sam and Colette had each received an interest-free loan of £40,000 from Hat Ltd on 30 April 2020.

Hat Ltd wrote-off Sam's entire loan of £40,000 on 6 July 2022.

On 20 December 2022 Colette repaid £28,000 of her loan. The company made a further loan to Colette on 5 January 2023 of £18,000.

Proposed VAT review

Sam completes the company's VAT returns but finds this difficult. He has asked your firm to review the VAT returns for the last two years. He hopes the firm will find that VAT has been overpaid and can be claimed back.

**Requirements:**

- 1) **Explain why Hat Ltd is a close company after the exercise of the EMI options.** (4)
- 2) **Calculate the amount charged to Income Tax per employee on exercise of the EMI options, showing full workings.** (2)
- 3) **Explain, with supporting calculations,**
  - 1) **The tax implications for Sam in 2022/23 of his loan and the loan write-off.** (3)
  - 2) **The tax implications for Hat Ltd of the transactions with Colette in December 2022 and January 2023.** (3)
- 4) **Applying the Professional Rules and Practice Guidelines (PRPG), explain the appropriate bases on which your firm could charge fees for the VAT review.** (4)

Total (16)