CIOT - ATT

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 1**

Answer-to-Question-_1_

Apportionment scheme 1

£18,000/£26,000 x £37,000
= £25,615 x 1/6 = £4,269 - output VAT due

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

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

Answer-to-Question-_2_

1) The software must:

- Keep and preserve records in a digital form

- Create a VAT return from the digital records held in functional compatible software and provide HMRC with this information digitally by using the API platform

- Provide HMRC with data on a voluntary basis

- Receive information with HMRC via the API platform in relation to a relevant entity's compliance with obligations

2) Yunfan would need to:

- Upgrade existing software or purchase new software

- Select the right software for his business

- Sign up to to MTD and use it for the first VAT return

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

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

Answer-to-Question-_3_

- This will fall under compulsory deregistration due to the changing status of the business

- The date of deregistration is based on the date the application is actually received by HMRC or a later date

- As for the assets not transfeered to the company - VAT must be accounted for on the final VAT return of any assets forming part of the business assets which are on hand at the last day of registration as if they were supplied in the course or furtherance of the business, unless the VAT on the deemed supply would not exceed £1,000

- The charge on deregistration is known as deemed supply

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

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

Answer-to-Question-_4_

VAT paid at a flat rate based on the amount of VAT inclusive turnover

VAT Inclusive turnover (Sales)
Dr Bank/Debtors: £21,575
Cr Sales: £21,575

£21,575 x 10.5% = £2,265

Dr Sales: £2,265
Cr: VAT payable: £2,265

Purchases
Dr Purchases: £6,212 (gross)
Cr Bank/Creditors: £6,212 (gross)

x 20% = £1,242

Dr VAT Control a/c: £1,242
Cr Bank/Creditors: £1,242

Balance on the VAT account: £3,507

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

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

Answer-to-Question-_5_

Car

Electric mileage - 85 miles - 5%

List price: £27,500 x 5% = £1,375 (Taxable benefit)

House (employer owned)

Annual value: £9,500
Add aditional yearly rent:
130,000 - 75,000 x 2% = £1,100
Less employee contributons:
£100 x 5 months = (500)

Taxable benefit: £10,100

Household Expenses

This benefit is calculated by taking the cost to Herb Ltd of paying these particular bills.

Taxable benefit: £3,250

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

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

Answer-to-Question-_6_

- Usually it is the client (Dent plc) who is responsible for determining whether the rules apply

- If the rules apply, then Dent plc should produce a status determination statement (SDS) setting out its assesment

- Anti-avoidance rules are in place to prevent individuals paying less tax and NICs by carrying out work through an intermediary

- Moshin will pay income tax at 20%, 40% and 45% depending on the level of income, as well as Class 1 employee NICs

- The intermediary company will pay corporation tax on its taxable profits at 19%

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

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

Answer-to-Question-_7_

Total earnings during the period: (£2,900 x 12 + £40,000) = £74,800

1,600 miles x 12 = 19,200 total business miles

Reimbursed: 19,200 x 50p = £9,600
Less tax-exempt limits:
10,000 x 45p: (4,500)
9,200 x 25p: (2,300)
Taxable profit: £2,800

£74,800 + £2,800
= £77,600

£77,600 - 50,270
= £27,330 x 3.25% = £888

50,270 - 11,908 x 13.25%
= £5,083

Total Class 1 NICs for 2022/23: £5,971

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

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

Answer-to-Question-_8_

- For Alison, she needed to have been continously employed for 26 weeks into the qualifying week, which is the 15th week before the baby is due (in this case at the end of October 2022. However, as she had only been employed from 1 July 2022, this would only amount to around 16 weeks of employment, thus she did not work for Vade Ltd for 26 continous weeks before the qualifying week

- For Roger, he is only entitled to SSP from Vade Ltd for up to 28 weeks from when he was absent from work due to sickness. As he has been off sick since May 2021, this is much longer than the 28 weeks and therefore he does not receive SSP

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

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

Answer-to-Question-_9_

Paybill: £2,540,000 x 0.5% = £12,700
Less levy allowance (3/12 x £15,000) = (3,750)
Less levy paid to date: (6,100)
Levy payable for m/e 5 July 2022: £2,850

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

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

Answer-to-Question-_10_

- There will be two separate CT returns for Yogalita - one for 12 months and one for 3 months - because an accounting period cannot exceed 12 months.

- The date of submission of the returns will relate to the end of the long period of account, i.e., 31 March 2023 - so this they will be due 12 months from the end of the period of account (31 March 2024)

- There will be two APs, two payments dates and one filing date. The CT computations will cover both periods

- AP 1 - 12 m/e 31 December 2022. AP 2 3 m/e 31 March 2023

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

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

Answer-to-Question-_11_

Salary: £80,000

Personal allowance: £12,570
Less underpaid: 3,500 x 100/20 = (£17,500)
Negative allowance: (4,930)

Tax code: SK438

- Kate’s tax code will have the prefix - ’S’ - because she is a Scottish taxpayer

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

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

Answer-to-Question-_12_

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

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

Answer-to-Question-_13_

- A Full Payment Submission (FPS) must be submitted to HMRC on or before the date a payment is made to an employee. Pool plc is requried to notify HMRC when the final FPS of the year has been made

- The FPS contains details of the PAYE income paid to employees and must report deductions such as income tax and NICs

- These income tax and NICs must be paid to HMRC on a monthly basis. The due date for payment is 17 days after the end of the tax month where payment is made electronically - 22nd of each month

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

CIOT - ATT

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 2**

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

Answer-to-Question-_14_

1)VAT Liability

1) UK Sales

Books are zero rated.
Toys standard - £28,000
VAT 20% = £5,600
Total: £33,600

2)Import from India (will be available for resale in the UK, so becomes a UK supply)

£25,000 @ 20%
= £5,000

3) Import from NI

VAT charged will be accounted for as output VAT, seller cannot claim this back

£1,250 20%
= £1,500

4) Export to South Africa - zero rated (as long as they have the necessary evidence for this)

5) Import from France

Books - zero rated

6) **Purchase of overseas services** by a UK business are liable to VAT in country where the customer is based - UK.

£2,400 @ 20%
= £480

VAT liability: £12,580

- Import VAT can be paid at a later date under the deferment scheme. There is a credit limit (deferment limit) that applies which is usually 100% of the estimated monthly debt for VAT

- The duty deferment scheme givs some cash flow relief. Without it, HMRC requires payment before they release the goods from the port of entry

- This will save MPC having to pay for each individual consignment at the point of import

- Where a business uses duty deferment to pay the import VAT, it needs to ensure that the imports are included on the Monthly Import VAT Certificate

2) Late Filing

- The due date for filing and payment of a VAT return is one calendat month and 7 days after the end of an accounting period

- A late penalty point could be awarded by HMRC for the first quarterly VAT return filed late

- A penalty point could be awarded by HMRC for each subsequent quarterly VAT return filed late

- Once a taxpayer has 4 penalty points for late filing of VAT returns, a financial penalty of £200 could be imposed

- Each subequent failure to file a quarterly return on time will result in a further £200 penalty, but no further penalty points

- Individual penalty points expire after 2 years (provided the maximum threshold has not been reached)

- Once a taxpayer has 4 penalty points, these reset to zero when 4 VAT returns are in on time and all VAT returns for the last 2 years have been submitted (whether late or on time)

3) Transfer of a going concern

- The value of any goods or services provided as a business transaction which is neither taxable nor an exempt supply (e.g., in this case the transfer of the business as a going concern) will be excluded from the calculation of taxable supplies

- Transfer of a going concern is outside the scope of VAT

- If VAT is charged, then it is usually recoverable by the new owner as input tax as there was no taxable supply

- The VAT registration number can be transferred, along with the records (making necessy information available to the buyer to enable them to comply with VAT regulations)

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

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

Answer-to-Question-_15_

1) Trading income

2019/20
01 Jan 2020 - 05 Apr 2020 (opening year rules)
£49,500 x 3/18
= £8,250

2020/21
06 Apr 2020 - 05 Apr 2021 (ap cannot exceed 12 months)
£49,500 x 12/18
= £33,000

2021/22
01 July 2020 - 30 June 2021 (accounts ending but less than 12 mths, tax 12 mths to end of AP)
£49,500 x 12/18
= £33,000

Overlap Profits:
01 July 2020 - 05 April 2021
£49,500 x 9/18
- £24,750

2) Registration

- Deductions of income tax, benefits and NICs will be reported for Adam and Mary

3) Tax-free childcare

- Adam is eligible because he is in paid work and meets the minimum working hours and national living wage, and his adjsuted net income does not exceed £100,000

- Contributions into the account are topped up by 25% of the contribution, up to a maximum of £2,000 per annum per child. This is increased to a maximum of £4,000 in respect of a disabled child

- If funds are withdrawn from the account (not used to pay for childcare), these funds are not eligible for the top-up payment

- Only one account can be opened for a child. For the moment Adam only has a baby, but for any future children he would need to open a separate account

- Top-up payments are only made up to 1 September following their 11th birthday (16th if disabled)

- They will not be elgibile to participate if part of the workplace childare voucher scheme or receiving working tax credit, child tax credit or universal credit

4) Workplace pension scheme

- Adam must be automatically enrolled into a workplace pension scheme because he is earnig more than £10,000 per annum and is aged over 22 and under the state pension age

- However Mary does not earn more than £10,000 as she only works for one day a week - therefore she does not have to be automatically enrolled into the workplace pension scheme. Mary may still choose to join her employer’s pension scheme but she will not be automatically enrolled

5) Duties Implied by Law

<u>For the employer</u>

- Providing a safe work environment for Adam and Mary

- Paying them for their work performed

- Reimbursing them for any reasonable and necessary expenses incurred on behalf of the business

- Maintenance of mutual trust and confidence

For Adam and Mary

- Obeying and cooperating with the employer

- Using care and skill in the performance of their functions

- Echibiting fideility and good faith to the employer

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

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

Answer-to-Question-_16_

1) Rules of CIS

- The CIS rules do need to be applied to the two construction costs in January 2023 because there was a construction turnover of at least £30,000 in the 12 months prior

- This is set off against monthly PAYEs/NICs or CIS payments (excess refunded or offset vs CT liability at year end)

2) Effect of Secondment

In 2022/23:

- Ria will be split-year UK non-resident from the moment she begins her secondment in the Netherlands (1 February 2023)

- Under the Statutory Residence Test she will initially meeet the conditions to be a UK resident for the tax year, however from the date above, she will begin full-time work abroad, and therefore become non-resident

- Her duties performed in the UK up until 31 Jan 2023 will be fully subject to UK tax. From 1 Feb 2023, her Dutch earnings will not be subject to UK tax as these will relate to duties performed outside the UK whilst she is non-resident

- Her UK domicile status in 2022/23 will remain unchanged

3) Taxable Employment Income

£
Annual salary: £80,000
Less
Allowable expenses: (400) (see Expenses note below)
Add disallowable expenses NE: £1,030 (see Netherland Trip note below)
Net income: £80,630

Less personal allowance: (£12,570)

Taxable income: £68,060

Expenses
£
Online course to learn Dutch: 100 - not allowable because it does not fall under the work related training exemption as he did not need to learn Dutch for work

Membership fee:(400) - exempt as approved body

Season ticket: 1,900 - not allowable because it is train travel to her regular place of work the head office

£400 deductible

Netherlands trip
Plane ticket Dan: (600)
Plane ticket Lisa: (500) both plane tickets for Dan and Lisa (under 18) are allowable
Dan's hotel room and meals (2,400 allowable assuming Dan paid for Lisa's accommodation separately)
Potential client entertaining: 800 (disallowable)
Laundry: 230 (no relief is available for this expenditure)

Add back
£1,030

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

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

Answer-to-Question-_17_

1)Close Company

Hat Ltd is still a close company after the exercise because:

- There are no more than 5 shareholders who control more than 50% of the company’s voting power, distributable profits or assets distributable on a winding up

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2)Income Tax

Lower of:
MV at grant: £26
MV at exercise: £100
= £26
Less exercise price: (£10)
= £16 x 50 shares
= £800 - amount charged to income tax per employee

3)Tax Implications

Loans both made prior to 6 April 2022 - so s.455 tax is charged at rate of 32.5%

1) The loan write-off is a benefit for Sam. It is not an allowable deduction for Hat Ltd. Company liable to pay Class 1 NICs on the write off which are allowable as a deduction.

2) The s.455 tax is repaid to Hat Ltd. CT liability is reduced 10,000 x 32.5% = £3,250

4) PRPG

Time and expenses - fee charged on basis of time spent, according to the skill and resources deployed. For urgent deadlines, an enhanced rate may be charged.

The engagmeent letter should include provision for varying the amount charged for extra work.

Fixed fee - based on a clear scope and proper costing of the work within this fixed fee. The engagement letter should include a variation clause if the arrangement will run for a length of time to allow additional work to be charged/cost escalation to be recouped.