

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

November 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. Boyang is a VAT registered trader, using the annual accounting scheme. HMRC estimated for the year to 31 March 2023, that £50,000 of VAT would be due and Boyang has made normal payments based on this estimate.

Boyang has calculated that for the year ended 31 March 2023, VAT due is actually £53,500.

Calculate Boyang's payments of VAT under the annual accounting scheme, explain the due dates of payment and the amount of any balance due. (3)

2. Esme submits VAT returns quarterly. The VAT return due for the quarter ended 31 March 2023 is submitted late. This was her first late return, but the business has become very busy and she is worried that future VAT returns may be late, leading to penalties.

Explain how the late submission penalty regime operates for Esme's VAT returns, assuming each VAT return up to and including the quarter to 31 March 2024 is late. (3)

3. Iris O'Hanlon owns 100% of the share capital of Wyatt Ltd and 80% of the share capital of Marshall Ltd. Both companies make taxable supplies for VAT purposes. Iris earns dividend income from both companies and has no other source of income.

Explain whether Iris, Wyatt Ltd and Marshall Ltd could form a VAT group. (3)

4. During 2022/23, Herdman Ltd recruited two employees:

Reece Entwistle is paid a monthly salary of £2,400 and has an outstanding Plan 1 student loan.

Ahmed Bajwa is paid a monthly salary of £4,333 and has an outstanding postgraduate loan.

Calculate the amount that Herdman Ltd should deduct from Reece and Ahmed's pay in respect of the loans. (4)

5. Liam is a VAT registered plumber and is also registered under CIS but does not have gross payment status. He has recently done some work for Lowbank Ltd, a VAT registered company and has submitted an invoice for the following amounts:

	£
Labour	2,200
Hire of plant	750
Materials	450
Travelling expenses	<u>280</u>
Invoice total	<u>3,680</u>

Assuming the reverse charge system applies:

- 1) **Calculate the amount of the CIS deduction and the amount Liam will receive from Lowbank Ltd.** (2)
- 2) **Calculate and explain the amount of VAT which needs to be reported in Lowbank Ltd's VAT return.** (1)

6. Lesante LLC is a USA based, wholly owned subsidiary of Augustus Ltd. Rudy Garcia is employed by Lesante LLC and is USA resident and domiciled.

On 1 August 2022, Rudy started a two-month secondment working for Augustus Ltd based in their offices in London, UK for four days every week. Whilst on secondment, Augustus Ltd will pay Rudy a salary of £4,000 per month and Rudy will work exclusively for Augustus Ltd. It is not clear whether a short-term business visitor agreement is in place.

Explain if Rudy's salary should be taxed in the UK, and whether Augustus Ltd should operate PAYE and deduct Income Tax and National Insurance Contributions on the salary.
(4)

7. Erin traded from 1 July 2020 until 31 August 2022. Her trading profits were:

	£
Year ended 30 June 2021	12,000
Year ended 30 June 2022	35,000
Two months ended 31 August 2022	6,000

Calculate Erin's assessable trading profits for each tax year of trade, stating the basis periods.
(4)

8. During 2022/23, Matt and Gio each had significant private use of a vehicle, provided by their employer, Brunat Ltd. The company paid for fuel for private use.

Matt's vehicle was a car and Gio's vehicle was a van. Both vehicles had a list price of £28,000 with CO₂ emissions of 152 g/km. The vehicles were diesel-powered but did not meet the RDE2 standard.

When buying the vehicles, Brunat Ltd got a discount of £2,000 from the list price of the car only. Matt paid £4,000 towards its purchase.

The van broke down and was unavailable for the last two months of 2022/23 while being repaired.

Calculate the taxable benefits for 2022/23.
(4)

9. Varieti Ltd prepared accounts for the year ended 31 March 2023.

The company paid interest on its £500,000 12% debentures quarterly, on the last day of each quarter. The debenture holders are all UK resident, with debentures held 15% by individuals and 85% by companies.

Varieti Ltd received a patent royalty payment of £56,000 from a UK individual on 1 January 2023.

Calculate the Income Tax suffered and withheld by Varieti Ltd for the quarter ended 31 March 2023, clearly labelling each, and explain the transactions with HMRC regarding the net amount of Income Tax.
(4)

10. Benguine plc operates a Share Incentive Plan (SIP), with free shares awarded annually on 31 March. Each employee is awarded free shares worth £500 for every 1% growth in sales achieved by their department, up to the permitted maximum.

For the award on 31 March 2023, Paula's department had achieved a 5% growth in sales and Kai's department had achieved a 10% growth in sales.

Fergi's department had no growth in sales. He left the company on 3 April 2023, withdrawing his shares from the plan. His only awards were in 2018 and 2019.

The shares increase in value every year and on 31 March 2023 were worth £20 per share.

Calculate the number of shares awarded to each of Paula and Kai on 31 March 2023 and explain the amount chargeable to Income Tax for Fergi on leaving the company. (4)

11. Ali is employed by Crayfod Ltd and is paid on the last day of each month.

In March 2023, Ali donated £100 to charity using a payroll scheme operated by Crayfod Ltd.

Explain the process by which the charity received the money, stating the latest possible date of receipt. (2)

12. Four unconnected sole traders each submitted their self-assessment tax returns for 2021/22 electronically on 30 September 2022. HMRC had issued notices to file the returns in May 2022.

The following further actions later took place regarding these 2021/22 returns:

	<u>Sole trader</u>	<u>Further action</u>
(a)	Rachel	Rachel amended her return after realising she had omitted income.
(b)	Samira	HMRC amended Samira's return for an error in calculation.
(c)	Tom	HMRC opened an enquiry into Tom's return.
(d)	Uli	Uli appealed amendments in an enquiry closure notice received on 30 April 2023.

State the latest date by which each further action could be taken. (2)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

13. Mason Wood is a partially exempt trader running a shop selling adult and children’s sports clothes and equipment and supplying sports insurance.

During the quarter ended 31 December 2022 he has the following results:

	£
Taxable supplies (standard rated)	90,000
Taxable supplies (zero rated)	10,000
Exempt supplies	10,500

Input tax:

Directly attributable to taxable supplies	4,700
Directly attributable to exempt supplies	1,750
Residual input tax	1,350

Mason also sold office equipment for £1,500 on 18 October 2022 (excluding VAT).

Mason has recently contacted you as a friend has told him that it would be simpler for him to use one of the VAT retail schemes. He has asked you to explain and calculate how the VAT Apportionment Scheme 1 would work based on his results for the quarter ended 31 March 2023 (all amounts are stated exclusive of VAT).

	£
Purchase of standard-rated goods	16,000
Purchase of zero-rated goods	5,000
Standard-rated sales	32,000
Zero-rated sales	2,000

Mason is experiencing a problem recovering payment from a customer who buys in bulk and on credit. He has given you details of recent invoices and payments:

<u>Invoice due date</u>	<u>Net</u>	<u>VAT amount</u>	<u>Gross</u>
	£	£	£
8 January 2023	300	60	360
18 February 2023	200	-	200
1 April 2023	650	130	780
8 July 2023	400	80	480

The customer paid £700 on account on 1 September 2023, not stating which invoice the payment was for. Mason has always accounted to HMRC correctly for the VAT on these invoices.

Requirements:

- 1) **Calculate the input tax recoverable for the quarter ended 31 December 2022, including an explanation of why the simplified tests for partial exemption are not met.** (5)
- 2) **Show the journal entries to record the sales, including the sale of office equipment, for the quarter ended 31 December 2022.** (3)
- 3) **Explain how Apportionment Scheme 1 operates, and calculate the output tax due for the quarter ended 31 March 2023 if the scheme had been used.** (4)
- 4) **Explain if Mason can claim bad debt relief and calculate the amount of the claim on his return for the quarter ended 31 December 2023.** (4)

Total (16)

14. Mohawk plc designs and builds commercial property. You have been provided with the following information concerning the payroll:

Annual paybill

The annual paybill, comprising salaries and bonuses, is £3.1 million. In addition, Mohawk plc provides certain non-cash benefits to employees and estimates the value of these for tax purposes is £250,000.

Commercial Director

The Commercial Director was paid a monthly salary of £6,000 throughout 2022/23 and received a bonus in March 2023 of £80,000.

Employee benefits

Mohawk plc made an interest free loan of £25,000 on 6 October 2020 to Lyla Birch. She repaid £3,000 of the loan on 5 April 2021 and a further £2,000 on 5 April 2022. On 6 August 2022, a further £5,000 was repaid.

On 6 September 2022, Lyla was provided with a house to live in, which Mohawk plc owns. The house is not job-related accommodation. It has an annual value of £5,000 and cost Mohawk plc £280,000 in September 2020. Mohawk plc also pays the utility bills which were £3,200 from 6 September 2022 to 5 April 2023.

HMRC request

Martha has been an employee of Mohawk plc for several years. She has just returned from maternity leave. HMRC have requested to see Mohawk plc's records for the past two years for statutory leave payments.

Company Share Option Plan

On 1 January 2023, Mohawk plc set up a new tax-advantaged company share option plan (CSOP) and immediately granted some share options. The directors of Mohawk plc cannot recall whether any forms were submitted to HMRC, and are now worried about the implications of not correctly notifying HMRC.

Requirements:

- 1) Calculate the amount of Apprenticeship Levy Mohawk plc will need to pay. (2)**
- 2) Calculate the Class 1 National Insurance Contributions relating to the Commercial Director for 2022/23. (2)**
- 3) Calculate the assessable benefits for Lyla Birch for 2022/23 and explain whether the average method or strict method should be used on the P11D. (4)**
- 4) Explain the records which need to be kept relating to Martha's statutory maternity pay, how long they should be kept and how the payments are reported. (3)**
- 5) Explain the reporting obligations Mohawk plc has for notifying HMRC about the CSOP, by what date and any penalties which may arise. (3)**

Total (14)

15. Mirkate Ltd was incorporated on 1 April 2022, by a company formation agent.

On 1 May 2022, Adam and a friend bought the initial shares and each subscribed for further shares. The company immediately deposited the subscription funds in a bank account bearing interest. On the same day, Adam was appointed a director, along with three other individuals.

On 15 May 2022 the company completed a factory purchase and on 1 June 2022 began trading.

On 15 June 2023 the company began renting out a surplus floor in the factory.

The first set of accounts was prepared for the period ended 30 June 2023.

Notifying HMRC

The directors have little knowledge of Corporation Tax but want to address this now the accounts have been prepared. They have not yet made any notifications to HMRC of the company's chargeability to Corporation Tax. Mirkate Ltd has also not received any correspondence from HMRC on Corporation Tax. The company has not yet paid any Corporation Tax.

Pension contributions

Mirkate Ltd has recruited employees and set up an occupational pension scheme.

Geoff was employed from 1 July 2022. Both Geoff and Mirkate Ltd contributed to the occupational pension scheme in 2022/23. In May 2022, Geoff had paid £1,500 into a personal pension scheme, which was his only previous pension contribution.

Geoff is a higher rate taxpayer with employment income only.

Requirements:

- 1) **Briefly explain Adam's different roles of shareholder and of director, under company law, in terms of the control and management of Mirkate Ltd.** (3)
- 2) **State the dates of all Corporation Tax accounting periods from 1 April 2022 to 30 June 2023.** (3)
- 3) **Explain, stating dates, all notifications Mirkate Ltd must make to HMRC about its chargeability to Corporation Tax and the maximum penalties if these are late.** (4)
- 4) **Explain how Income Tax relief is given on Geoff's contributions to the two different pension schemes and any limits to the contributions which get this relief.** (4)

Total (14)

16. Until 31 March 2022, Monique was employed by Koaly Ltd. Koaly Ltd is a small company for the purpose of the off-payroll working rules.

Termination package

On 31 March 2022, Monique resigned and left Koaly Ltd on the same day. That day, she received a gross termination payment as follows:

	£
Full payment in lieu of notice (PILON)	15,000
Payment for holiday days not taken	1,000
Ex-gratia payment	<u>18,000</u>
Gross payment	<u>34,000</u>

As part of her termination package, Monique was also allowed to keep her company car. The car had a list price of £38,000 and was valued at £25,000 on 31 March 2022. Monique's total taxable benefit for private use of the car since first provided by her employer was £17,860.

Moni-Solutions Ltd

Monique incorporated a new company, Moni-Solutions Ltd, of which she was the sole shareholder, director and employee. Moni-Solutions Ltd began trading on 6 April 2022 and notified HMRC of this. The company prepared accounts for the year ended 5 April 2023. It is not VAT-registered.

During the year ended 5 April 2023 Moni-Solutions Ltd provided services to Koaly Ltd for £72,000 and to another client, Molez Ltd, for £3,000. If Monique had provided the services directly, she would have been treated as an employee of Koaly Ltd but not of Molez Ltd.

Monique received a monthly salary of £2,000 from Moni-Solutions Ltd throughout 2022/23. Moni-Solutions Ltd paid £750 for Monique's annual subscription to her approved professional institute.

Requirements:

- 1) Calculate Monique's taxable employment income from her termination package, showing whether each item is fully taxable, partially exempt or fully exempt. Assume the same rules applied in 2021/22 as in 2022/23. (3)**
- 2) Calculate Monique's deemed salary from Moni-Solutions Ltd for 2022/23. (4)**
- 3) Explain Moni-Solutions Ltd's PAYE obligations for the actual and deemed salary payments to Monique for 2022/23. (4)**
- 4) For the year ended 5 April 2023, explain Moni-Solutions Ltd's reporting and payment obligations for Corporation Tax. Include details of what must be filed with the Corporation Tax return. (3)**

Total (14)