

CIOT - ATT

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

Under annual accounting scheme,

90% of the estimated VAT liability is paid direct debit on the last day of month 4 to month 12 of £5,000 (50,000\*90%)

The remaining of £5,000 + (53,500 - 50,000) - 8,500 is due 31 May 2023.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question-\_2\_

The late submission penalty regime operates using penalty point. A penalty point is awarded by HMRC in respect of the first quarterly filed late.

As Esme's VAT return submitted 4 times up to 31 March 2024, this is four penalty points. There is a financial penalty of £200.

Each subsequent failure to file a quarterly return on time will result in a further £200 penalty but no further penalty points.

Esme's penalties could be restricted if she gives reasonable excuse - the business has become very busy or technical problems that she can't submit her VAT return on time.

Penalties must be paid within 30 days.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-\_3\_

Iris, Wyatt Ltd and Marshall Ltd meet VAT group condition below:

- Wyatt Ltd and Marshall Ltd are a body corporate and Iris is an individual.

-Iris and Wyatt Ltd owns more than 80% of the share capital which means they have control the UK body corporate.

-They are carrying on a business making supplies.

But they will be eligible for group registration, if they meet the last condition - they need to be established in the UK or has an established place of business in the UK

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question-\_4\_

Reece - Plan 1  
 $2,400 - 1,682 = \text{£}718$   
 $718 @ 9\% = \text{£}64$

£64 will be deducted from Reece's pay monthly in respect of the loan.

Ahmed - Plan 4  
 $4,333 - 2,114 = \text{£}2,219$   
 $2,219 @ 6\% = \text{£}133$

£133 will be deducted from Ahmed's pay monthly in respect of the loan.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

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Invoice amount		3,680	
Less: deduction under CIS	20% * (2,200+750+280)	(646)	
Amount paid to Liam		3,034	

2.

Lowbank will pay output tax of £3,680 @ 20% = £772 to HMRC. They will be able to recover this as input tax which needs to be reported in VAT return.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

Rudy's days in the UK is - 4 days/week for 2 months which is 32 days in the UK.

As Rudy is non-domicile and non-UK resident, the salary should still be taxed in the UK as receipt basis.

Augustus Ltd should operate PAYE and deduct income tax and NICs on the salary of Rudy's.

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

2020-21

1 Jul 20 - 5 Apr 21 (9 months)

$12,000 \times 9/12 = \mathbf{9,000}$

2021-22 actual basis

YE 30 June 21 (12 months)

**12,000**

2022-23

YE 30 June 2022 - 35,000

plus: 31 August 2022 - 6,000

Less: overlapping profit - (9,000)

Assessable trading profit for 2022-23 = **32,000**

Overlapping profit

1 July 20 - 5 Apr 21 (9 months)

9,000

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question-\_8\_

Matt - car

List price		28,000	
Less: contribution		(4,000)	
Revised list price		24,000	
CO2 emission	(150 - 75)/5 + 19%+2%	36%	2% diesel
Revised list price * CO2 emission	24,000 * 36%	<b>8,640</b>	

Car fuel benefit

	25,300 * 36%	<b>9,108</b>	
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Total benefits for Matt in 2022/23 is **17,748**

Brunat - van

Van benefits -  $3,600 * 10/12 = 3,000$

Van fuel benefit -  $688 * 10/12 = 573$

Total benefits for Brunat in 2022/23 is **3,573**

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9\_

		Tax Withheld	tax suffered	Net	Tax due/payable	
Q/e						
31.03.23						

Income tax in respect of debenture is calculated as follows:  
 $500,000 * 12% * 15% * 85% = £7,650$   
This will need to be reported on form CT61 for QE 31 Mar 2023. The form will need to be filed and tax need to be paid by 14 Apr 2023.

W1:

W2: patent royalty from individual = received net of 20% tax of 56,000 \* 20/80 = 14,000

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

Each employee is awarded free shares worth £500 for every 1% growth in sales. on 31 March 2023, one shares worth £20. Therefore, free shares =  $500/20 = 25$  free shares.

As Paula had achieved a 5% growth - the free shares are calculated as  $25 * 5 = 125$  free shares.

As Kai had 10% growth - the free shares are calcualted as  $25 * 10 = 250$  free shares. but as the value is worth over £3,600, it is restricted to 180 free shares.

As Fergi has withdraw the free shares within 3 - 5 years, there is an income tax on lower of:

- Market value at allocation
- Market value at withdrawal

As the company is public listed, there is also PAYE and class 1 NICs charges becuase the shares are readily convertible assets.

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-----ANSWER-10-ABOVE-----  
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-----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

The charity received the donation by deducting from Ali's gross pay (before tax) after NIC.

The agency must contribute the donation from employer within 60 days from the date of receipt.

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

2021/22 tax returns must be submitted to HMRC by 31st January 2023. All have submitted their tax return on time.

- a). Rachel is able to amend her return within 12 months of normal filling date which by 31st January 2024.
- b). HMRC is able to amend Samira's return within nine month of receiving the return which by 31st June 2023.
- c). HMRC can open an enquiry into Tom's return by 31st Janaury 2024.
- d). Uli can appeal amendments made by 30 Apr 2024.

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-----ANSWER-12-ABOVE-----  
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Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 2**

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-----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

1.

	Total	Taxable	Exempt
Direct taxbale	4,700	4,700	
Direct exempt	1,750		1,750
Residual (W1)	1,350	1,215	135
	7,800	5,915	1,885

Test 1

Total supplies 7,800 > £1,875 - not applicable

Test 2

Direct exempt + residual 1,750 + 1,350 > £1,875 - not applicable

Is the exempt input VAT below the de minimis threshold

No more than 50% of total input VAT? Yes

And no more than £1,875 per quarter? No

Only input VAT relating to taxable supplies is recoverable.  
Therefore, the tax recoverable is £5,915.

**Working - 1**

Fraction

100,000 - 1,500 = 98,500 (less capital element)

$98,500 / (98,500 + 10,500) = 90\%$

taxable residue  $(1,350 * 90\%) = 1,215$

exempt residue  $(1,350 * 10\%) = 135$

2.

Taxable supplies  
 $\text{£}90,000/6 = 15,000$

Standard rated supplies

Dr Debtors		90,000	
Cr Sales			75,000
Cr VAT control account			15,000

Zero rated supplies

Dr Debtors		10,000	
Cr Sales			10,000

3.

Under apportionment scheme, a quarterly calculation is performed to arrive at output tax and an annual adjustment made. It is used where VAT-exclusive sales < £1 million pa.

SR sales = gross daily taking \* cost of SR goods purchased (incl VAT) / cost of all goods purchased (incl VAT)

Standard rated goods purchase VAT incl =  $16,000 * 20\% + 16,000 = 19,200$

Standard-rated sales VAT incl =  $32,000 * 20\% + 32,000 = 38,400$

$(38,400 + 2,000) * 19,200 / (19,200 + 5,000) = 30,625$

Output VAT =  $38,400/6 = 6,400$

4.

Where part payments are made these must be allocated to the other invoices first.

The payment of £700 is allocated to invoice in 8 January 2023, 18 February 2023 and part in 1 April 2023.

Invoice due			Gross
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date			Outstanding
1 Apr 2023			(780 - 140) = 640
8 July 2023			480

Mason can claim bad debt relief on the invoice 1 Apr 2023 because the debt is at least 6 months old. The invoice has been accounted on VAT return to HMRC. Therefore,  $(640/6) = \text{£}107$  is claim on his return for the quarter ended 31 December 2023.

Mason cannot claim bad debt relief on the invoice dated 8 July 2023 because the debt is not 6 months old.

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

1.

paybill * 0.5%	(3,100,000 -250,000)*0.5 %	14,250	paybill does not include non-cash
Less: levy allowance		(15,000)	
Apprenticeshi p levy due		nil	

2.

total earnings = (6,000 \* 12) + 80,000 =152,000

(50,270 - 11,908) \* 13.25% = 5,083

(152,000 - 50,270) \* 3.25% = 3,306

total payable = 8,389.

3.

Loan

Average basis should be used on P11D

At 5 Apr 2022 - (25,000 - 3,000 - 2,000) = 20,000

At 6 Apr 2023 - (20,000 - 5,000) = 15,000

(20,000+15,000)\*2% = £350

Accommodation

6/9/22 - Employer-owned accommodation was provided (not job related)

Annual value		5,000	
Add: additional yearly rent because cost > 75,000	(280,000 - 75,000) * 2%	4,100	

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Add: utility bills		3,200	
Taxable benefit		12,300	

Total assessable benefits during the year is 12,650 (350 + 12,300)

4.

The records which needs to be kept relating to Martha's statutory maternity pay are:

- Form MAT B1 proof of pregnancy.
- The date SMP began
- The date SMP payment
- The SMP reclaimed
- Any weeks did not pay and why.

They should keep the records for 3 years from the end of the tax year that it is related to.

The SMP is reported via Full Payment Submission.

5.

As the company set up CSOP scheme in 2022-23 tax year. Mohawk plc has to notify HMRC by 6th July 2024 about the CSOP.

Late notification means that the tax advantages will be lost for earlier tax year and will only apply for future tax year. The penalty may be up to twice of the amount of income tax or NICs relief given or due.

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question-\_15\_

1.

Roles of shareholder

- Liable to company's debt up to the value of the shares in the company.
- pass resolution in general meetings by voting shareholder capacity.
- Set up annual meeting

Roles of director

- Acts within power
- Promote success of the company
- Exercise independent of judgment
- Avoid conflicts of interest
- Not accepting benefits from third party.

2.

Corporation tax accounting period

- 1 Apr 22 - 30 Apr 22
- 1 May 22 - 30 May 22
- 1 June 22 - 30 May 23
- 1 June 23 - 30 June 23

3.

The company must notify HMRC within 3 months of the starts of its first AP which is by 1 July 2022.  
CT600 return must be submitted to HMRC for both period YE 30 Mar 2023 and PE June 2023 by 30 June 2024 or 3 months from the receipt of filing notice.

The penalty for failure to notify HMRC is charged as percentage of the amount of corporation tax which is unpaid 12 months after the end of the accounting period as a result of the failure to notify.

The maximum penalties as this is  
if deliberate but not concealed is 70% of unpaid CT due.  
if deliberate but concealed is 100% of unpaid CT due.

4.

The employee pension contribution - deductible against earning income.

There is no income tax or NICs related to employer pension contribution.

The maximum gross contribution qualifying for tax relief that individual can make into a pension scheme each tax year is the higher of 100% of relevant earnings or £3,600.

Employment income and trading income are relevant earnings.

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----  
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Answer-to-Question-\_16\_

1.

			Income tax	Class 1 NIC	Class 1A NIC
PILON (W1)			15,000	15,000	
Payment for holiday (W2)		1,000			
Ex-gratia (W3)		18,000			
Car benefits (4)			17,860		17,860
Less: exemption		(30,000)			
		0	32,860	15,000	17,860

- W1 - taxable and subject to class 1 NIC in full  
W2 - taxable under s.401 and eligible for £30,000 exempt  
W3 - taxable under s.401 and eligible for £30,000 exempt  
W4 - taxable benefits

2.

Payment		72,000	
Less: 5% deduction		(3,600)	
		68,400	
Less: allowable expenses		(750)	
Less: employer NICs		(2,242)	

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on pay (24,000 - 9,100) @ 15.05%			
Less: worker pay	2,000 * 12	(24,000)	
Gross Deemed payment		41,408	
Less: employer NICs including	41,408 * 15.05/115.05	(5,416)	
Net deemed payment		35,992	

3.

The deemed payment is taxable of earnings to income tax and NICs. Both deemed and actual salary will be reported as earning income.

The payment will need to be included to Monique's payslip and submit the figure via Full Payment Submission on or before the time of payment.

4.

The company will need to submit CT600 12 months after the end of the period of account which is by 5 Apr 2024. CT return must be filed online, with a full copy of the company accounts, suitably 'tagged' in iXBRL format.

Payment for corporation tax must be made by nine month and one day after the end of the accounting period which is by 6th october 2023.