



November 2023 Examination

PAPER 3

BUSINESS COMPLIANCE

Part I and Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

PART I

1.

Under the annual accounting scheme, 90% of the estimated VAT is due in nine equal instalments. (1/2) So nine instalments of £5,000 will be due ($£50,000 \times 90\% / 9 = £5,000$ per month.) (1/2).

Payments are made monthly from month 4 so the first payment will be made on 31 July 2022 and monthly from that date until 31 March 2023. (1)

Over the nine months, £45,000 will be paid. Therefore, there is a balance due of £8,500 and this needs to be paid within two months following the year end ie by 31 May 2023. (1)

(3 marks)

2.

Late submission penalties work on a points-based system. (1/2)

For each return submitted late, Esme receives a penalty point until she reaches the penalty point threshold. (1/2)

As Esme uses quarterly returns the threshold is four. (1/2) So Esme will receive one penalty point for her late return. (1/2). When the threshold is reached for the quarter ended 31 December 2023 there will be a £200 penalty. (1/2) The late return for 31 March 2024 will not attract any more penalty points. But because Esme is at the threshold there will be a further penalty of £200 for the additional late submission. (1/2) The penalty points will reset to zero once Esme has submitted returns on time for 12 months (four returns) .(1/2)

(Max 3 marks)

3.

Iris controls both Wyatt Ltd and Marshall Ltd as she owns more than 50% of the share capital .(1) However, Iris cannot be part of the VAT group as she must be carrying on a business by making supplies . (1) However, as Wyatt Ltd and Marshall Ltd are both under the control of Iris, both companies can form a group together. (1),

(3 marks)

4.

Reece

The pay period threshold is £1,682 (1/2) and so the excess is £718. (1/2)

$0.09 \times £718 = £64.62$. (1/2)

This should be rounded down to the nearest £ so £64 (1/2)

Ahmed

The pay period threshold is £1,750 (1/2) so the excess is £2,583.(1/2)

$0.06 \times £2,583 = £154.98$. (1/2)

This should be rounded down to the nearest £ so £154. (1/2)

(4 marks)

5.

1)

Lowbank Ltd should make a deduction of 20% for the labour and travelling expense parts of the invoice:

	£	
Invoice amount	3,680	
Less deduction under CIS: (£2,200+£280) x 20%	<u>(496)</u>	(1.5)
Amount paid to Liam	<u>3,184</u>	(1/2)

Liam will not have to include any VAT on the invoice and will not have to calculate any output tax.

(2 marks)

2)

Lowbank Ltd will pay output tax on the entire amount of the invoice so £736 (£3,680 x 20%). (1/2)

Lowbank Ltd will be able to recover the amount as input tax in the normal way. (1/2)

(1 mark)

6.

Although Rudy is non-UK resident, (1/2) he is performing all of his duties in the UK (1/2) for Augustus Ltd, so any earnings are fully taxable at the point they are received, (1/2)

As Rudy has come to work in the UK for a UK employer for a short period, the UK host employer, in this case Augustus Ltd, has an obligation to operate PAYE (1/2) on Rudy's UK earnings and so deduct both Income Tax (1/2) and National Insurance Contributions. (1/2)

However if a short-term business visitor agreement is in place, payments can be made to Rudy without deduction of UK Income Tax. (1/2) The short-term business visitor agreement only applies for Income Tax purposes and therefore Augustus Ltd will still be responsible for withholding National Insurance Contributions from Rudy's salary. (1/2)

(4 marks)

7.

	£	
2020/21: 1 July 2020 – 5 April 2021 (1/2)		
9/12 × 12,000	9,000	(1/2)
2021/22: Year ended 30 June 2021 (1/2)	12,000	(1/2)
2022/23: 1 July 2021 – 31 August 2022		(1/2)
Year ended 30 June 2022	35,000	
Two months ended 31 August 2022	<u>6,000</u>	
	41,000	(1/2)
Less overlap profits (1/2) of 9,000 (1/2)	<u>(9,000)</u>	
	<u>32,000</u>	

(4 marks)

8.

	<u>£</u>
Car:	
Use benefit: (£28,000 (1/2) - £4,000 (1/2)) × (((150 - 75)/5 + 20%) (1/2) + 4%)	8,880
37% max (1/2)	
Fuel benefit: £25,300 × 37% (1/2)	<u>9,361</u>
	<u>£18,241</u>
Van:	
Use benefit: £3,600 (1/2) × 10/12 (1/2)	3,000
Fuel benefit: £688 × 10/12 (1/2)	<u>573</u>
	<u>£3,573</u>
	(4 marks)

9.

Income Tax suffered (1/2) on the receipt of the patent royalty = £56,000 × 20/80 = £14,000 (1/2).

Income Tax withheld (1/2) on the debenture interest paid to individuals only = £500,000 × 12% × 3/12 (1/2) × 20% (1/2) × 15% (1/2) = £450.

The net amount of £13,550 (£14,000 - £450) is refunded to the extent that Income Tax has already been paid over to HMRC during the year (1/2) ie the tax withheld on debenture interest in previous quarters £1,350 (3 × £450) is refunded following submission of the quarterly return (1/2).

The remaining Income Tax suffered £12,200 (£13,550 - £1,350) is set against the company's Corporation Tax liability for the year ended 31 March 2023 (1/2). If this exceeds the Corporation Tax liability, the excess will be repaid by HMRC (1/2).

(maximum 4 marks)

10.

	<u>Paula</u>	<u>Kai</u>	
Value of award (£)			
5 × £500	2,500		(1/2)
10 × £500, restricted to £3,600		3,600	(1/2)
Number of shares /£20	125	180	(1/2)

Fergi

The shares awarded on 31 March 2018 were in the plan for more than five years (1/2) and so there is no Income Tax on withdrawal (1/2).

The shares awarded on 31 March 2019 were in the plan for between three and five years (1/2). Income tax is chargeable on the lower of the market value at initial allocation (1/2) and the market value at the date of withdrawal (1/2) ie the value on allocation as the shares have increased in value (1/2).

(maximum 4 marks)

11.

Crayfod Ltd deducted/withheld the £100 from Ali's March pay (1/2).

Crayfod Ltd had to pay this to an HMRC approved payroll giving agency (1/2) within 14 days of the end of the tax month ie by 19 April 2023 (1/2). The agency had to pay this to the charity within 35 days of receiving it, so the latest possible date (if received 19 April 2023) is 24 May 2023 (1/2).

(2 marks)

12.

	<u>Sole trader</u>	<u>Action regarding 2021/22 return</u>	
(a)	Rachel	Amendment by taxpayer: 31 January 2024	(1/2)
(b)	Samira	Amendment by HMRC: 30 June 2023	(1/2)
(c)	Tom	Enquiry opened by: 30 September 2023	(1/2)
(d)	Uli	Appeal of amendments in an enquiry closure notice: 30 May 2023	(1/2)

(2 marks)

PART II

13.

1)

Simplified test 1 is not met as the total input tax for the quarter of £7,800 exceeds £1,875 for the quarter which equates to £625 per month on average. **(1)**

Simplified test 2 is not met as total inputs less direct taxable inputs is £3,100 (ie £7,800 – £4,700) equal to £1,033 per month which exceeds £625 per month on average.. **(1)**

Exempt supplies are less than 50% of total supplies in each case but both parts of the test need to be met for full recovery.

The recoverable input tax for the quarter is therefore calculated as:

Taxable supplies / total supplies = 91% (£100,000/£110.500)**(1)**

	Total £	Taxable £	Exempt £
Directly attributable to taxable supplies	4,700	4,700	
Directly attributable to exempt supplies	1,750		1,750 (1/2)
Residual input tax	<u>1,350</u>	<u>1,229</u>	<u>121(1/2)</u>
Total	<u>7,800</u>	<u>5,929</u>	<u>1,871</u>

The amount on input tax attributable to exempt supplies for the quarter of £1,871 is equal to £624 per month on average is less than £625 per month and less than 50% of the total input tax so this meets the de minimis limit and therefore Mason can claim back the full amount of £7,800.**(1)**

(5 marks)

2)

The sales will include the sale of equipment. VAT will be added at 20% on both the standard rated sales of £90,000 and the sale of equipment of £1,500 so total VAT of £18,300.**(1)**

Dr Bank/debtors	130,300		(1/2)
Cr Sales	110,500		(1/2)
Cr fixed asset	1,500		(1/2)
Cr VAT control	18,300		(1/2)

(3 marks)

3)

VAT apportionment scheme 1 operates by estimating a split of gross takings between different types of turnover and it is available for retailers with annual sales, which exclude VAT, of up to £1 million.

(1/2)

In each quarter, the purchases of goods for resale are expressed as a percentage; the percentage being cost of standard-rated goods purchased, including VAT, (1/2) divided by cost of all goods purchased. This fraction is then applied to gross takings in order to calculate the value of standard-rated sales for the quarter. (1/2) Annual adjustments are then made as necessary. (1/2)

So for Mason, the fraction of supplies which are standard rated would be:

$$19,200 / 24,200 (1) \times £40,400 (38,400 + £2,000) = £32,052. (1)$$

$$\text{So the output tax due is } £32,052 \times 20/120 = £5,342. (1/2)$$

(maximum 4 marks)

4)

Mason has supplied goods or services and has accounted for and paid the output tax to HMRC. (1/2)

If the consideration has been written off in their accounts as a bad debt (ie there is an entry in the bad debt account) then relief may be available. (1/2)

The cash received is allocated to the oldest invoices first. i.e.

£360 to 8 January 2023 (1/2)

£200 to invoice on 18 February 2023 (1/2)

The remaining £140 will be allocated to the invoice due on 1 April 2023 leaving £640 outstanding and the whole of the £480 invoice due on 8 July 2023 (1/2).

Relief is available if the debt is at least six months old (ie six months have elapsed since the later of the date of the supply and the due date for payment as specified on the invoice). (1/2)

Only the invoice due on 1 April 2023 is over 6 months old (1/2) at 31 December 2023

So the bad debt relief which can be claimed is £107 (£640 x 1/6) (1/2).

(4 marks)

14.

1)

The apprenticeship levy is 0.5% of paybill, not including benefits, with the £15,000 levy deducted.

	£	
Annual paybill	3,100,000	(1) 1/2 for paybill, 1/2 for not incl. benefit
x 0.5%	15,500	(1/2)
Less levy allowance	<u>(15,000)</u>	(1/2)
Apprenticeship levy due	<u>500</u>	

(2 marks)

2)

Director's have an annual earnings period for NIC.

Earnings are £152,000 for the year (12 x £6,000 + £80,000). (1/2)

Class 1 Primary

$£50,270 - £11,908 \times 13.25\% = £5,083$ (1/2)

$£101,730 \times 3.25\% = £3,306$ (1/2)

Total = £8,389

Class 1 Secondary

$£152,000 - £9,100 \times 15.05\% = £21,506$ (1/2)

(2 marks)

3)

Average loan outstanding = $£20,000 + £15,000 / 2 = £17,500$ x official rate of interest of 2% = £350.

(1/2)

Under the strict method:

$£20,000 \times 4/12 \times 2\% = £133$ (1/2)

$£15,000 \times 8/12 \times 2\% = £200$ (1/2)

The strict method will be claimed by Lyra (1/2). However the P11D is prepared by Mohawk using the averaging method. (1/2)

House:

Annual Value £5,000 (1/2)

Additional charge – $(£280,000 - £75,000) \times 2\% = £4,100$ (1/2)

Total = $£9,100 \times 7/12 = £5,308$ (1/2)

Utility bills = £3,200 (1/2)

Total benefit = £8,508

(maximum 4 marks)

4)

Mohawk plc must keep records of the payments made.

HMRC provide forms for this purpose in respect of SMP (form SMP2) although the employer can retain the information in another form if they wish. (1/2)

Mohawk plc must record details of the Martha's name and National Insurance number, payment dates, the amounts paid and the date the pay period began. (1/2)

The company should also retain her maternity certificate. (1/2)

Records must be kept for at least three years after the end of the tax year to which they relate (1/2).

SMP forms part of Martha's pay subject to tax and NICs which must be reported to HMRC on a Full Payment Submission (FPS) on or before the date of payment. (1/2)

The amounts paid must also be recorded separately on the FPS. (1/2)

(3 marks)

5)

For a CSOP to be tax advantaged it must be registered with HMRC. This is done using the Employment Related Securities online service. (1/2) In addition, the schemes must be self-certified to state that they meet all the relevant conditions to be tax advantaged. (1/2)

New schemes must be registered and self-certified by 6 July following the tax year in which the first award of shares was made i.e. by 6 July 2023. (1/2)

Mohawk plc is also required to submit an annual return to HMRC by 6 July 2023 in respect of the share options granted in 2022/23. (1/2)

It appears that Mohawk plc failed to file a return by the correct date, an automatic penalty of £100 is charged. An additional £300 penalty will be charged if the return is outstanding for more than 3 months (ie beyond 6 September 2023). (1/2) This penalty is repeated if the return is outstanding for more than 6 months. (1/2) Daily penalties of £10 per day can be levied if the return is outstanding for more than 9 months (1/2).

(maximum 3 marks)

15.

1)

Different roles of shareholder and director

As shareholder, Adam and his friend have ultimate control of the company (1/2) by the right to vote on resolutions (1/2) in general meetings (1/2).

As a director, Adam is the company's agent (1/2) managing the company on a day-to-day basis (1/2) effectively delegated by the shareholders (1/2). The board of directors has authority to bind the company if acting in the course of the company's business (1/2).

Other relevant points from company law will gain credit.

(maximum 3 marks)

2)

Accounting periods

1 May 2022 (1/2) (1/2) (ignoring 1 April before this, this date starting AP) – 31 May 2022 (1/2) (1/2) (ignoring 15 May 2022, this date ending AP)

1 June 2022 – 31 May 2023 (1/2) (12m AP ending before POA end)

1 June 2023 – 30 June 2023 (1/2) (ignoring 15 June 2023)

(3 marks)

3)

Notification of chargeability and penalties

Marks for dates given on follow-through from candidate's own answer to part 2).

Mirkate Ltd should have notified HMRC of first coming within the charge to Corporation Tax not later than three months after the start of its first accounting period (1/2) so 1 August 2022 (1/2).

There is no penalty for failure to make this notification (1/2).

Mirkate Ltd should also notify HMRC of chargeability within 12 months of the end of each accounting period (1/2) ie by 31 May 2023, 31 May 2024 and 30 June 2024 (1/2).

If these notifications are late, penalties arise due to a careless failure (1/2). The maximum penalty is 30% of the potential lost revenue (1/2) being the Corporation Tax unpaid 12 months after the end of the accounting period (ie at the above dates) (1/2).

(4 marks)

4)

Income Tax relief on pension contributions

Occupational pension scheme contribution – Geoff's contribution is deducted from his gross pay before PAYE is calculated (1/2), so tax relief at 40% (initially) is given at source (1/2).

Personal pension contribution – the paid amount of £1,500 is net of 20% tax /is grossed up to £1,875 (100/80) (1/2). The 20% tax is paid into Geoff's personal pension scheme from HMRC (1/2). The gross amount entered on his tax return extends Geoff's basic rate band (1/2). This means more of his income is taxed at 20% instead of 40% (1/2).

The amount of gross contribution which receives tax relief is limited to the higher of £3,600 (1/2) and 100% of his relevant earnings/employment income (1/2). However, the total gross contributions by Geoff and Mirkate Ltd on his behalf (1/2) are further limited to an annual allowance of £40,000 (1/2) for Geoff to benefit from relief on his contributions.

(maximum 4 marks)

16

1)

Taxable employment income

	£	£	
Fully taxable:			
PILON		15,000	(1/2)
Payment for holiday days not taken		1,000	(1/2)
Partially exempt:			
Ex-gratia payment (<i>allow as 'fully exempt' if reason is £30k</i>)	18,000		(1/2)
Transfer of car to Monique - MV	25,000		(1/2)
<i>For not deducting previous benefits from car value</i>	0		(1/2)
Less exempt amount	<u>(30,000)</u>		(1/2)
		13,000	
		<u>£29,000</u>	(3 marks)

2)

Deemed salary payment

		£	
Income from relevant engagements		72,000	(1/2)
Less 5% automatic deduction		<u>(3,600)</u>	(1/2)
		68,400	
Less salary	2,000 × 12	(24,000)	(1/2)
Less class 1 secondary NIC	(24,000 – 9,100) × 15.05%	(2,242)	(1)
Less professional subscription		<u>(750)</u>	(1/2)
Gross deemed payment		41,408	
Employers' NIC on gross payment	41,408 × 15.05/115.05	<u>(5,417)</u>	(1)
Net deemed payment		<u>35,991</u>	

Full credit to be given if candidates reflect reduced NIC rate from 6 November.

(4 marks)

3)

PAYE obligations

Each month's payment of actual salary had to be reported on a Full Payment Submission (1/2) on or before the payment date (1/2).

Payment of the PAYE had to be made to HMRC by 22th (assuming made electronically) after the end of each tax month (1/2).

The deemed payment had to be reported on a Full Payment Submission on or before 5 April 2023 (1/2). The PAYE had to be paid by 22 April 2023 (1/2).

The report and payment for the deemed salary may be based on a provisional calculation (1/2). Any adjustment to the provisional amount must be reported on a Full Payment Submission and paid by 31 January 2024 (1/2).

The actual and deemed salaries had to be reported on a form P60 (1/2) by 31 May 2023 (1/2).

(maximum 4 marks)

4)

Corporation Tax reporting and payment obligations

Reporting – the Corporation Tax return must be filed by 5 April 2024 (1/2). Filing must be online (1/2) with supporting computations (1/2) and a set of accounts (1/2) tagged in Inline eXtensible Business Reporting Language (iXBRL) (1/2).

The Corporation Tax payment must be made by 6 January 2024 (1/2) as the company's profits clearly do not exceed the limit for quarterly instalment payments (1/2).

(maximum 3 marks)