

**THE ASSOCIATION OF  
TAXATION TECHNICIANS**

**ATT PAPER 3 BUSINESS COMPLIANCE**

**May 2025**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- 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 of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. You work in practice as a tax adviser. Amira is a new client of your firm.

Amira started trading on 1 April 2024, setting up an online business as a health and beauty consultant.

#### Recent trading results

Her monthly turnover (excluding VAT) has been:

	£
Standard-rated supplies	13,200
Zero-rated supplies	6,700
Exempt supplies	3,200

As this is Amira's first business venture she has no knowledge of the VAT registration requirements.

#### Employee recruitment

As Amira's business has grown quickly, on 6 October 2024, she recruited two new employees.

#### Bo Brice

Bo is a postgraduate and is paid a monthly salary of £2,500. She has an outstanding postgraduate loan and an outstanding student plan 1 loan.

#### Cavan Garside

Cavan is paid a monthly salary of £3,700. From 6 October 2024, Amira rented a house, with a market value of £285,000, for Cavan and his family to live in. Amira paid a monthly rent of £2,300. The house has an annual value of £27,000 and is not job-related accommodation.

From 6 October 2024 Cavan was also provided with the use of a petrol car with CO<sub>2</sub> emissions of 116g/km. The car had a list price of £26,500 and Cavan paid £6,200 as a capital contribution towards the cost of the car. Amira does not pay for Cavan's petrol.

Amira also provides Cavan with a smart phone which cost £500 to buy and a further monthly cost of £75 for calls and data.

Cavan receives rental income from a property he owns which makes him a higher rate taxpayer.

#### Cavan Garside – change of car

From 6 April 2025, Amira is considering buying a hybrid car with a list price of £18,800 for Cavan to use. It has an electric range of 35 miles and CO<sub>2</sub> emissions of 48g/km. She would like to understand whether Cavan would pay less tax or whether it would be better for him to keep his existing car.

Cavan will be a higher rate taxpayer in 2025/26.

Amira's business does not payroll benefits for employees.

#### **Requirements:**

- 1) Explain, showing relevant calculations, the date by which Amira should have notified HMRC of her liability to register for VAT and the date from which she was VAT registered. (4)**
- 2) State the consequences for Amira of failing to register for VAT by the deadline and how HMRC determine the amount of any penalty which may become chargeable. (2)**
- 3) Explain Amira's obligations for reporting new employees to HMRC and the information she needs to send. (2)**
- 4) Calculate the monthly amount of student loan deductions from Bo's salary for 2024/25. (2)**

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Continuation

- 5) Explain whether the benefits provided to Cavan are taxable and how and by when they should be reported to HMRC for 2024/25. (3)
- 6) Calculate the assessable amount of Cavan's benefits for 2024/25. (3)
- 7) For each of the petrol car and the hybrid car, if provided for the whole of 2025/26, calculate the Income Tax payable by Cavan on the provision of each car. Include a calculation of any tax savings and recommend which car would be most tax efficient for Cavan. (3)

Total (19)

2. You are a tax adviser and are currently doing work on three different clients.

Danuble Ltd

Danuble Ltd runs a partially exempt business and has the following results for the year ended 31 March 2025:

	£
Standard-rated supplies (excluding VAT)	1,053,200
Zero-rated supplies	250,000
Exempt supplies	<u>420,000</u>
Total supplies	<u>1,723,200</u>

On 1 March 2025, Danuble Ltd sold a machine for £3,200 (excluding VAT). This has been included in the standard rated supplies figure.

Danuble Ltd's input tax for the year is:

	£
Wholly attributable to taxable supplies	7,200
Wholly attributable to exempt supplies	2,940
Non-attributable	<u>18,900</u>
	<u>29,040</u>

The input VAT recovered over the VAT year to 31 March 2025 was £25,550.

Petra Popov

Petra is a new client who has previously done her own VAT returns. She does not pay VAT by direct debit. On reviewing her client file, you find the following information about her VAT returns over recent years:

<u>Quarter ended</u>	<u>VAT due</u>	<u>Date return submitted</u>	<u>Date VAT paid</u>
	£		
30 June 2023	72,000	18 August 2023	1 August 2023
30 September 2023	18,000	28 October 2023	29 October 2023
31 December 2023	7,500	1 March 2024	1 March 2024
31 March 2024	22,000	18 April 2024	22 April 2024
30 June 2024	28,000	31 August 2024	12 September 2024
30 September 2024	56,000	29 October 2024	31 October 2024
31 December 2024	13,000	9 February 2025	8 February 2025

Continued

Continuation

Sheine Ltd

Sheine Ltd has been a client for a number of years. It has a head office in the UK but has offices in a number of different countries around the world. Sheine Ltd would like to understand the tax implications for two employees:

Esme Baker

Esme has always been UK resident and domiciled. In 2024/25 she was seconded to Sheine Ltd's offices in Utopia for four months. She spent two workdays in the UK every month and part of her earnings were paid by the Utopian office into a bank account in Utopia whilst she was on secondment. She returned to the UK immediately after her secondment.

Gorka Marino

Gorka is resident and domiciled in Spain. He works for Matteo SL, a subsidiary of Sheine Ltd, which is registered and based in Barcelona. He was seconded to Sheine Ltd's office in London for two months during 2024/25. He had never previously visited the UK and when his secondment ended, he moved back to Spain.

**Requirements:**

- 1) **Calculate the amount of the annual adjustment (if any) for Danuble Ltd for the year ended 31 March 2025.** (5)
- 2) **Explain, for each quarter from 30 June 2023 to 31 December 2024, whether any penalties will apply to Petra for VAT filing and payment, assuming the current penalty regime applies to all periods.** (5)
- 3) **Advise Sheine Ltd on:**
  - a) **Whether Esme's earnings relating to her UK and overseas duties will be taxable in the UK and;** (2)
  - b) **Whether Gorka's earnings will be subject to UK tax and if there are any steps which could be taken so that tax does not have to be paid in the UK.** (3)

Total (15)

- 3. You are a tax adviser in practice and Tails Ltd is your client. You have been asked for advice on the following areas:

Bad debts

Tails Ltd has made the following supplies to a customer, Randall, during the year to 31 March 2025:

<u>Date of supply</u>	<u>Payment due date</u>	<u>Vat exclusive sale</u> £	<u>VAT</u> £	<u>VAT inclusive sale</u> £
30 June 2024	30 July 2024	2,000	Zero-rated	2,000
9 July 2024	8 August 2024	1,000	200	1,200
1 August 2024	31 August 2024	3,000	600	3,600
1 October 2024	31 October 2024	800	Exempt	800
10 December 2024	1 January 2025	2,700	540	3,240

The only payment received in relation to these supplies is £4,200 on 8 March 2025. The outstanding balance has been written off in Tails Ltd's accounts.

Payments to Sam Green

Sam Green is aged 46 and is a director of Tails Ltd. She is paid a monthly salary of £6,160 and on 4 June 2024, the board agreed a bonus of £22,500 to be paid with Sam's June salary.

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Advice on payments to employee

Estelle has been working for Tails Ltd for five years. Estelle started 39 weeks of maternity leave on 1 March 2025. Her weekly earnings over the eight weeks up to the qualifying week were:

<u>Week</u>	<u>Earnings</u>
	£
1	350
2	380
3	420
4	370
5	400
6	390
7	410
8	370

**Requirements:**

- 1) **Explain with supporting calculations, the amount of bad debt relief that Tails Ltd can claim for the supplies to Randall in the VAT return to 31 March 2025.** (4)
- 2) **Calculate the primary Class 1 National Insurance Contributions (NIC) due for Sam for each month of 2024/25.** (5)
- 3) a) **Explain the records Tails Ltd must keep in relation to the payments it makes to Estelle and how the payments should be reported to HMRC.** (3)  
b) **Calculate the total amount of statutory maternity pay Estelle will receive over the 39 weeks she is on maternity leave, assuming the current rates and allowances continue into the future.** (3)

Total (15)

4. Marcia operated a business as a sole trader, designing websites for clients. She ceased trading on 31 May 2024.

Profits of the website design business

Her trading profits for the five months ended 31 May 2024 were £15,000.

She had total transition profits arising in 2023/24 of £5,000 and she made no election in respect of these.

Pazzax Ltd

On 6 April 2024 Marcia incorporated a company Pazzax Ltd and the company started a new trade, to advise clients on the use of AI (Artificial Intelligence).

Marcia owns 100% of the shares in Pazzax Ltd and is a director. Pazzax Ltd has no other employees.

Contract with Turise Ltd

In the year ended 5 April 2025, Pazzax Ltd had one contract with a client, Turise Ltd, which is a small company for the purposes of the off-payroll working legislation.

Marcia carried out the work for this contract. Turise Ltd allowed Marcia to work at home, provided she worked during Turise Ltd's usual business hours.

The technical director at Turise Ltd gave Marcia instructions for the tasks he wanted her to undertake to complete the work. Marcia misunderstood one aspect and spent two weeks on work that could not be used. Turise Ltd paid Pazzax Ltd for this work.

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## Continuation

Marcia attended a conference as requested by Turise Ltd. She wanted to ask a business contact Bob, who works in the same sector, to attend instead of her. However, Turise Ltd refused, wanting Marcia to represent the company. Marcia was registered at the conference, and shown in the information provided to all attendees, as being from Turise Ltd.

If Marcia had engaged with Turise Ltd directly, she would be deemed to be an employee of Turise Ltd.

### Financial results for the year ended 5 April 2025

Pazzax Ltd invoiced Turise Ltd £65,000 for work done during the year ended 5 April 2025.

Pazzax Ltd paid Marcia a salary of £15,000 for the year, paid at the end of each calendar month. The company contributed £1,000 into Marcia's personal pension scheme during the year. Pazzax Ltd initially estimated the deemed employment payment and later made any relevant adjustment.

#### **Requirements:**

- 1) Calculate Marcia's taxable trading profits for 2024/25 from her website design business. (2)**
- 2) Explain the factors which indicate that Marcia would be deemed to be an employee of Turise Ltd, if she had engaged with that company directly. (4)**
- 3) Calculate Marcia's net deemed employment payment for 2024/25. (4)**
- 4) Explain Pazzax Ltd's reporting and payment obligations for PAYE and National Insurance Contributions (NIC) for 2024/25. State due dates. (6)**

Total (16)

5. Jaybird Ltd is a UK company. It prepares accounts to 30 September each year and does not pay Corporation Tax by instalments.

### Year ended 30 September 2022

From May 2024, the company engaged a firm, POZ LLP, to act on tax compliance matters. POZ LLP worked to bring the company's tax affairs up to date.

As part of this, the company submitted its Corporation Tax return for the year ended 30 September 2022 on 17 July 2024. The Corporation Tax payable for that year, £95,000, was paid when the return was filed.

All previous and subsequent Corporation Tax returns have been submitted on time.

### Shareholdings

Jaybird Ltd has 10 individual shareholders who own the issued ordinary share capital equally.

Of these shareholders, Ceri and Mel are directors of Jaybird Ltd. No other shareholders work for the company.

Included as shareholders are Harley who is Ceri's husband, and Saj who is Mel's brother. There are no other connections between shareholders.

### Loan to Yani

The company made an interest-free loan to Yani, one of the shareholders, for £30,000 on 1 April 2023.

Yani repaid £10,000 on 1 April 2024. Jaybird Ltd waived £4,000 of the loan on 1 October 2024.

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**Requirements:**

- 1) **Explain, with supporting calculations, the penalty due on the late filing of the Corporation Tax return for the year ended 30 September 2022.** (3)
- 2) **Explain the ethical guidance POZ LLP should follow to ensure that Jaybird Ltd's tax compliance deadlines are met in future, stating the extent of the firm's responsibilities for this.** (4)
- 3) **Explain why Jaybird Ltd is classed as a close company.** (4)
- 4) **Explain, with supporting calculations and dates, the tax implications for Jaybird Ltd of the loan transactions.** (4)
- 5) **Explain, with supporting calculations and dates, the tax implications for Yani of the loan in 2024/25.** (3)

Total (18)

6. Wolere Ltd is a UK trading company.

EMI scheme

Wolere Ltd granted Enterprise Management Incentive (EMI) options to two employees, Rhianfa and Guy, on 2 February 2015. Each employee was granted options over 1,000 shares with an exercise price of £3 per share. The market value of the shares in February 2015 was £4 per share.

Rhianfa exercised her options on 1 June 2024 when the market value of the shares was £9 per share.

On 17 March 2025, all shareholders sold their shares to another company, Takke Ltd. Immediately before the sale, Guy had exercised his options, when the market value of the shares was £11 per share.

Termination package

On 17 March 2025, Lara, the finance director, was made redundant. Her termination package comprised a car, a gross payment, and a payment by Wolere Ltd into Lara's personal pension scheme.

The car had been provided by Wolere Ltd for Lara's personal use since 6 April 2023. The car had a list price of £40,000 and Lara's total taxable benefit for use of the car until 17 March 2025 was £28,900. The market value of the car on 17 March 2025 was £32,000.

The gross payment received by Lara as part of her termination package was:

	£
Statutory redundancy	7,000
Bonus recognising work done for the company sale	20,000
Full payment in lieu of notice (PILON)	18,000
Ex-gratia payment	<u>10,000</u>
Gross payment	<u>55,000</u>

The pension contribution made by Wolere Ltd was £3,000 (gross).

**Requirements:**

- 1) **Calculate the amounts chargeable to Income Tax on the exercise of the EMI options by Rhianfa and Guy respectively. Show your detailed workings.** (3)

Continued

- 2) Explain what can be deduced about the employees of Wolere Ltd, and specifically about Rhianfa and Guy, for valid EMI options to have been granted in February 2015. Assume that the EMI rules were the same in 2014/15 as in 2024/25. (3)
- 3) Explain Wolere Ltd's EMI reporting obligations to HMRC for 2024/25. You are not required to consider full payment submissions (FPS). (3)
- 4) Calculate the amount of Lara's termination package which will be chargeable to Income Tax. Show clearly whether each item is fully taxable, fully exempt, or partially exempt. (4)
- 5) Calculate the Class 1A National Insurance Contributions (NIC) payable on Lara's termination package. (2)

Total (15)