

# **May 2025 Examination**

## **PAPER 3**

### **BUSINESS COMPLIANCE**

**Suggested Answers**

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

1.

1)

The future prospects test is not relevant as there is no indication that the business will exceed the threshold in the next 30 days. **(1/2)**

***Tutorial note: Reference to the historic test being relevant will also be credited.***

Exempt supplies are not taken into account in determining if the VAT threshold has been exceeded. **(1/2)** The taxable monthly supplies are made up of the standard-rated and zero-rated supplies **(1/2)** and total £19,900 (£13,200 + £6,700) per month. **(1/2)**

The VAT threshold for registration is £90,000 so under the historic test the threshold will be exceeded after 5 months**(1/2)** (£19,900 x 5 = £99,500) which is 31 August 2024. **(1/2)**

Amira should have notified HMRC by 30 September 2024 **(1/2)** and should have been VAT registered from 1 October 2024. **(1/2)**

 **(4 marks)**

2)

A failure to notify penaltymay be charged on Amira if she fails to register for VAT or registers late.

HMRC will consider the amount of the potential lost revenue **(1/2)** as a result of the failure to notify and Amira’s behaviour with different penalty ranges for behaviour. Amira’s behaviour is likely to be viewed as failure to take reasonable care so a penalty of between 0% and 30% of tax due is likely to be levied.. **(1/2).** A penalty can be reduced depending if the disclosure is prompted or unprompted**. (1/2)**

A penalty may not be charged

* if Amira has a reasonable excuse for the failure
* the failure was not deliberate or
* Amira notified HMRC without unreasonable delay after a reasonable excuse ended **(1/2) – for any consideration of no penalty**

Credit was also given for the following points:

As consequences for failing to notify, candidates may also have stated:

* The registration would be backdated to when Amira should have been registered
* Amira would be required pay any VAT due from the period she should have been registered from up to the date she actually registered. Her taxable supplies would be deemed VAT inclusive in this calculation of VAT due.
* The penalty would then be based on a percentage of that VAT due (being the potential lost revenue)

For how HMRC determine the amount of penalty, candidates may also have stated

* In reviewing the penalty for reduction due to disclosure, HMRC would consider the quality of the elements of the disclosure (telling HMRC about the failure, giving HMRC reasonable help in calculating the resulting unpaid tax and allowing HMRC access to records)
* Quality incudes timing, nature and extent.
* Where the failure is due to careless the reduction in penalty also depends on how long has elapsed since the VAT first became unpaid as a result of the failure.

**Max 2**

3)

Amira will need to report the date on which the employment started and the employee’s address, **(1/2)** on the FPS for when the employee is first paid **(1/2)**.

*Tutorial note: Any relevant information will be credited.*

Amira will also need to report a ‘starter declaration’ for the employee and determine the tax code to apply. **(1/2)** If the employee has a form P45 and the date of leaving the employment is in the current tax year, the employer can use the P45 to determine the starter declaration. **(1/2)**

**If the employee does not have a P45, they can complete a New Starter Checklist online (1/2)**

 **Max 2**

4)

Plan 1 loan deduction = £37 monthly (£2,500-£2082) **(1/2)** x 9%**(1/2)**

PG loan deduction = £45 per month (£2,500-£1,750) **(1/2)**  x 6%**(1/2)**

 **(2 marks)**

5)

There will be a benefit arising on Cavan for the use of the house and the use of the car. **(1/2)** The mobile phone is exempt. **(1/2)**

The taxable benefits must be reported to HMRC on form P11D **(1/2)** by 6 July 2025. **(1/2)**

A form P46 (car) must also be completed when an employee is first provided with **(1/2)** a car within 28 days of the relevant quarter in which the event takes place so for Cavan this is the quarter to the 5 January 2025 so by 3 February 2025. **(1/2)**

 **(3 marks)**

6)

W1 – House

As the house is rented the benefit is the higher **(1/2)** of the rent paid or the annual value.

Rent paid is £13,800 (£2,300 x 6) **(1/2)**

Annual value = £13,500 (£27,0000 x 6/12) **(1/2)**

W2 – Car

Relevant percentage = 28%**(1/2)** (115 – 75)/5 = 8% + 20% = 28%.

£3,010 = (£26,500 - £5,000**(1/2)**  max) x 28% x 6/12**(1/2)**

 **(3 marks)**

7)

If Cavan kept the petrol car then his assessable benefit would be the amount for the whole year which is £6,020. **(1/2)**

The assessable benefit on a hybrid car is £18,800 x 12% = £2,256 **(1/2)**

This means that the tax payable on the petrol car is £2,408 **(1/2) (**£6,020 x 40%) and only £902 **(1/2)** on the hybrid meaning a tax saving of £1,506**(1/2)** (£2,408-£902) for Cavan

The hybrid is the best option relating to tax savings for Cavan. **(1/2)**

 **(3 marks)**

2.

1)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Taxable supplies£ | Exempt supplies£ | Total supplies£ |
| **Wholly attributable input tax**Taxable suppliesExempt supplies**Non-attributable input tax**Recoverable % = 76% **(1/2)**(1,300,000/ 1,720,000) **(1/2)****(1/2) for leaving out capital**Attributable to taxable supplies76% X £18,900**(1/2)**Attributable to exempt supplies24% X £18,900**(1/2)** Input VAT  |  7,20014,553**21,564** | 2,9404,536**7,476** | 7,2002,94014,3644,536**29,040** |

Tests for de minimis

Part 1 – is the monthly average attributable to exempt supplies £625 or less? **(1/2)**

£7,476 / 12 = £623 so part 1 is passed. **(1/2)**

Part 2 – Is the proportion of VAT on exempt supplies not more than 50% of all input VAT for the period? **(1/2)**

£7,287 / £29,040 = 25.09%**(1/2)**

Both parts are passed so all input VAT for the year is recoverable. **(1/2)**

The annual adjustment is therefore £3,490 (£29,040-£25,550) recoverable.**(1/2)**

**Max 5**

2)

|  |  |  |
| --- | --- | --- |
| **Quarter ended** | **Date return submitted** | **Date VAT paid** |
| 30 June 202330 September 202331 December 202331 March 2024 | 18 August 202328 October 20231 March 202418 April 2024 | 1 August 202329 October 20231 March 202422 April 2024 |
| 30 June 202430 September 202431 December 2024 | 31 August 202429 October 20249 February 2025 | 12 September 202431 October 20248 February 2025 |

For the quarter to 30 June 2023, a late filing penalty point will apply but a late payment point will not apply as the VAT was paid on time. **(1/2)**

For the quarter ended 30 September 2023 the return and payment is on time so there are no penalties. **(1/2)**

For the quarter ended 31 December 2023 a late filing penalty point**(1/2)** will apply and there will also be a late payment penalty of 2% of the VAT due so £150, as the payment was made between 15-30 days of the VAT being due. **(1/2)**

For the quarter ended 31 March 2024 the VAT return and payment is on time. **(1/2)**

For the quarter ended 30 June 2024 there is a late filing penalty point **(1/2)** and also a late payment penalty. The payment was due on 7 August 2024 and was made more than 30 days late and so the penalty is 4% of the VAT due which is £1,120. **(1/2)**

For the quarter ended 30 September 2024 there are no late filing points or late payment penalties. **(1/2)**

For the quarter ended 31 December 2024 there is a late filing penalty point which now takes the total to four points and a £200 fine will be imposed. **(1/2)** However, there will be no late payment penalty as payment was made within 15 days of the due date of payment. **(1/2)**

 **(5 marks)**

3)

a) Esme will be resident in the UK throughout the period of her secondment as she spends more than 183 days in the UK. **(1)** Therefore all her earnings regardless of where they are paid will be subject to UK tax on the receipts basis. **(1)**

 **(2 marks)**

b) Whilst in the UK, Gorka’s earnings from his UK work will be subject to UK tax. **(1/2).**

 Gorka would however be able to make a claim for double tax relief in his home country. It could be that Gorka meets the definition of a short term business visitor **(1/2)**

as

* He is resident in Spain and the UK has a double tax agreement with Spain**(1/2)**
* He is coming to work in the UK but is economically employed by a non-UK resident entity**(1/2)**
* He is expected to spend less than 183 days in the UK in a 12-month period. **(1/2)**

If this is the case then Sheine Ltd can pay Gorka without deduction of tax but Sheine Ltd will still be responsible for deduction of NIC.**(1/2).** As Gorka is present in the UK for 60 days or more, the UK company must not bear the costs of employment.

**Max 3**

3.

1)

Total value of supplies = £10,840.

Payment received = £4,200 therefore the debt outstanding is £6,640. **(1/2)**

As the payment does not relate to any particular supply, it is treated as relating to the earliest supply. **(1/2)**

Therefore payment is treated as made in full for the supplies on 30 June 2024**(1/2)**

 and 9 July 2024 **(1/2)**

.£1,000 is also allocated to the supply on 1 August 2024. **(1/2)**

The VAT outstanding for the supply on 31 August 2024 is £2,600 x 1/6 = £433**(1/2)**. Bad debt relief can be claimed on this amount. **(1/2)**

There is no VAT on the supply on 1 October 2024**(1/2)**

 and the debt relating to the supply of 10 December 2024 is not yet 6 months old.**(1/2)**

 **(Max 4 marks)**

2)

a)

Month 1 (April 2024) the following NICs will be payable:

As Sam’s salary is only £6,160 no NICs are payable as total earnings to date do not exceed the primary threshold of £12,570. **(1/2)**

Month 2 (March 2024) again there will be no Class 1 primary NICs. **(1/2)**

Month 3 (June 2024 when the bonus is paid) the following NICs will be payable:

Earnings to date are £40,980 (£6,160 x 3 + £22,500). now exceed the primary threshold **(1/2)** so Director NICs are £2,273 (£40,980-£12,570)x 8%. **(1/2)**

Month 4 (July 2024)

Earnings to date are £47,140 (£6,160 x 4 + £22,500) so NIC is (£47,140-£12,570) x 8% = £2,766 **(1/2)** less amount already paid in month 3 of £2,273 = £493. **(1/2)**

Month 5 (August 2024)

£6,160 x 5 + £22,500 = £53,300 so NIC is £3,077 [(£50,270-£12,570) x 8% = £3,016**(1/2)** + (£53,300-£50,270)x2% = £61] **(1/2)** less amounts already paid of £2,766 = £311 **(1/2).**

For months 6 to 12, Sam’s earnings exceed the upper earnings limit so NIC of £6,160 x 2% = £123.20 will be due each month. **(1/2)**

 **(5 marks)**

3)

a)

Tails Ltd must keep records of:

* Employees name
* National insurance number
* Payment dates
* Date payment started
* The date the pay period begun
* Amounts paid

A copy of the maternity certificate

* **(1/2 mark per point max 2)**

Payments made to Estelle must be recorded on the full payment submission**(1/2)**

 and reported on her P60 form. **(1/2)**

b)

 For the 2024/25 tax year, SMP is paid for up to 39 weeks:

* The first 6 weeks are paid at 90% of her average weekly earnings
* The next 33 weeks are paid at the lower of 90% of her average weekly earning or £184 per week.

Estelle’s weekly earnings in the last 8 weeks total £3,090 giving average weekly earnings of £386**(1/2)**

The first 6 weeks of SMP are paid at 90% of the average weekly earnings and so Estelle will receive £348 (£386 x 90%) per week. **(1/2)**

For the next 33 weeks, SMP is paid at the lower of 90% of the average weekly earnings **(1/2)**

or £184 per week. **(1/2)**

Since £348 exceeds the statutory maximum of £184, Estelle will receive £184 per week for the remaining 33 weeks. **(1/2)**

Therefore the total SMP is £8,160 (£348 x 6 + £184 x 33). **(1/2)**

 **(3 marks)**

4.

1)

**Trading profits on cessation of trade**

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Trading profits 6.4.24 – 31.5.24 |  |  |
| 2/5 × £15,000 *(2/12 would get ½ mark)* | 6,000 | **(1)** |
| Plus transition profits **(1/2)** remaining 4/5 × £5,000 **(1/2)** | 4,000 |  |
| Taxable trading profits | 10,000 |  |

**(2 marks)**

2)

**Factors indicating employment status**

Turise Ltd controls the work done by Marcia, by dictating the times when work must be done, and by giving instructions regarding the tasks to be completed **(1)**.

Marcia/Pazzax Ltd do not bear financial risk as Turise Ltd still paid for her incorrect work **(1)**.

Marcia was prevented from sending a substitute to the conference, indicating personal service is required **(1)**.

She is integrated into the business of Turise Ltd, giving the appearance of being an employee of Turise Ltd at the conference **(1)**.

For most of the year, Marcia worked only for Turise Ltd, rather than for several clients **(1)**.

*Credit to be given for alternative factors, which relate to the scenario and which indicate employment*

**(maximum 4 marks)**

3)

**Deemed employment payment**

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Income from relevant engagements | 65,000 | **(1/2)** |
| Less 5% deduction | (3,250) | **(1/2)** |
|  | 61,750 |  |
| Less salary | (15,000) | **(1/2)** |
| Less Class 1 secondary NIC on salary (15,000 – 9,100) × 13.8% | (814) | **(1)** |
| Less company pension contribution | (1,000) | **(1/2)** |
|  | 44,936 |  |
| Less Class 1 secondary NIC on deemed payment (44,936 × 13.8/113.8) | (5,449) | **(1)** |
| Net deemed employment payment | 39,487 |  |

**(4 marks)**

4)

**PAYE and NIC obligations**

Monthly salary payments must be reported on a Full Payment Submission (FPS) **(1/2)** on or before the date of payment each month **(1/2)**.

The PAYE and NIC on the monthly salary payments must be paid by 19th (or 22nd if electronic payments made) of the next month **(1/2)**. *Credit given if discuss possibility of quarterly payments, but not expecting candidates to calculate whether PAYE/NIC (including that on deemed payment) is < £1,500 per month*

The deemed payment must be reported on an FPS **(1/2)** on or before 5 April 2025 **(1/2)**.

The relevant PAYE and NIC on the deemed payment must be paid by 19 April 2025 (or 22 April 2025) **(1/2)**.

The calculation of the deemed payment, and so its PAYE and NIC, was estimated **(1/2)**.

Once the calculation is revised, any adjustments must be reported to HMRC on an FPS **(1/2)** and any outstanding amounts of PAYE and NIC must be paid **(1/2)** by 31 January 2026 **(1/2)**. The company will have to pay interest on these outstanding amounts **(1/2)**.

Pazzax Ltd will have to provide Marcia with a P60 showing her salary and PAYE/NIC deductions **(1/2)** by 31 May 2025 **(1/2)**.

**(maximum 6 marks)**

**Total 16 marks**

5.

1)

**Late filing penalties**

The return was due by 30 September 2023 **(1/2)**.

A penalty of £200 **(1/2)** is due as the return is more than three months late **(1/2)** *can be explained in terms of two £100 amounts (with partial credit if only the first £100 penalty is given)*.

As the return was not filed within 18 months of the accounting period end (31 March 2024) **(1/2)**, a penalty is charged on the corporation tax unpaid at that date **(1/2)** at 10% ie £9,500 being 10% of £95,000 **(1/2)**.

Total penalty £9,700.

**(3 marks)**

2)

**Ethical guidance to ensure tax compliance deadlines are met Ethics manual, 6th edition, Ch 5, 5.9**

POZ LLP should maintain a system to ensure all relevant deadlines are monitored and appropriate action taken **(1/2)**.

Given the variety of deadlines, POZ LLP should make clear who is responsible for ensuring these are met **(1/2)**.

As POZ LLP is clearly engaged for compliance work for Jaybird Ltd **(1/2)**, this will normally include responsibility for keeping the client informed **(1/2)** of

* the amount of tax payable **(1/2)**
* the due date for payment **(1/2)**
* the fact that interest accrues from that date **(1/2)**.

POZ LLP’s responsibilities do not extend to ensuring that Jaybird Ltd actually pays the tax due **(1/2)**.

If POZ LLP has made it clear to Jaybird Ltd that they have no responsibility for monitoring relevant dates **(1/2)**, a specific exclusion to that effect should be incorporated in the letter of engagement or otherwise communicated in writing **(1/2)**.

**(maximum 4 marks)**

3)

**Close company**

Jaybird Ltd is a UK company **(1/2)**.

Ceri and Harley are associates (spouses) **(1/2)** *for identifying spouse associates* and count as one participator with a total shareholding of 20% **(1/2)** *for consequence of associates.*

The same is true for Mel and Saj (siblings) **(1/2)** *for identifying sibling associates*.

Therefore, the company is controlled **(1/2)** i.e. more than 50% of the shares are owned by **(1/2)** four participators:

Ceri and Harley 20%

Mel and Saj 20%

Another shareholder 10%

Another shareholder 10% **(1/2)**

i.e. by five or fewer participators **(1/2)** and so it is close.

**(4 marks)**

4)

**Tax implications of loan for company**

A s.455 tax charge was payable as a loan was made to a participator **(1/2)**.

The charge was:

* payable on the normal due date for payment of corporation tax for the accounting period of the loan advance (year ended 30 September 2023) i.e. 1 July 2024 **(1/2)**
* charged on the lower of the loan amount outstanding on that date **(1/2)** and on the last day of the accounting period **(1/2)** i.e. £20,000 at 33.75% = £6,750 **(1/2)**.

The loan waiver leads to a refund/ reduction in the corporation tax due **(1/2)** on the normal due date for the period of the waiver (the year ended 30 September 2025) i.e. 1 July 2026 **(1/2)** of £1,350 (£4,000 × 33.75%) **(1/2)**.

*Credit given if candidates highlight that employer’s NIC is not due in respect of the loan or are aware that the loan waiver is not an allowable deduction against the company’s taxable total profits, but these points are not required for full marks.*

**(4 marks)**

5)

**Tax implications of loan for Yani**

Yani is not an employee **(1/2)** so the interest-free loan benefit is taxed as dividend income **(1/2)**.

The amount of the loan benefit for 2024/25 is (£20,000 + £16,000)/2 **(1/2)** × 2.25% **(1/2)** = £405.

The loan waiver is also treated as an amount of dividend income of £4,000 **(1/2)**.

Yani would have to pay income tax on the dividend income (total £4,405) at his marginal rates **(1/2)** under self-assessment and so by 31 January 2026 at the latest **(1/2)**.

*Credit given if candidates highlight that employee’s NIC is not due in respect of the loan*

**(maximum 3 marks)**

**Total 18 marks**

6.

1)

**Amount chargeable to income tax**

Rhianfa *(charge due to discount)*

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Lower of: |  | **(1/2)** |
| Market value at date of grant, £4 |  | **(1/2)** |
| Market value at date of exercise, £9 |  | **(1/2)** |
|  | 4 |  |
| Less exercise price | (3) | **(1/2)** |
| Amount chargeable per share | 1 |  |
| Amount chargeable for 1,000 shares | £1,000 |  |

Guy *(exercised after 10 years)*

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Market value at date of exercise | 11 | **(1/2)** |
| Less exercise price | (3) | **(1/2)** |
| Amount chargeable per share | 8 |  |
| Amount chargeable for 1,000 shares | 8,000 |  |

**(3 marks)**

2)

**Employees**

There must have been fewer than 250 full-time equivalent employees **(1/2)**.

Rhianfa and Guy must have been full-time employees **(1/2)** meaning that they must have worked at least 25 hours per week **(1/2)**.

They must not have had a material interest in the company **(1/2)**, meaning that together with their associates **(1/2)** they must not have controlled more than 30% of the share capital of the company **(1/2)**.

 **(3 marks)**

3)

**Employer reporting obligations**

Wolere Ltd must complete an annual return **(1/2)** by 6 July 2025 **(1/2)** reporting the (date of) exercise of the options during the tax year **(1/2)** and all the information necessary to calculate the tax charge **(1/2)** so the market value of the shares at exercise **(1/2)**, the market value of the shares at grant **(1/2)** and the exercise (option) price **(1/2)**.

**(maximum 3 marks)**

*In this part candidates do not need to recognise the distinction between Rhianfa’s (EMI) and Guy’s (non-tax advantaged) option exercises.*

4)

**Termination package – amount chargeable to income tax**

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ | £ |  |
| Fully taxable:  |  |  |  |
| Bonus |  | 20,000 | **(1/2)** |
| PILON |  | 18,000 | **(1/2)** |
| Fully exempt: |  |  |  |
| Statutory redundancy | - |  | **(1/2)** |
| Pension contribution | - |  | **(1/2)** |
| Partially exempt: |  |  |  |
| Ex-gratia payment *(allow as ‘fully exempt’ if reason is £30k)* | 10,000 |  | **(1/2)** |
| Transfer of car to Lara - MV | 32,000 |  | **(1/2)** |
| *For no comparison car calc eg with use benefit deduction* | 0 |  | **(1/2)** |
| Less exempt amount (£30,000 - £7,000) | (23,000) |  | **(1/2)** |
|  |  | 19,000 |  |
|  |  | £57,000 |  |

**(4 marks)**

*There are acceptable alternative presentations.*

5)

**Class 1A NIC**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | £ |  |
| Ex-gratia payment  |  | 10,000 |  |
| Car  |  | 32,000 |  |
| Partially exempt amount *candidate’s figure from above* |  | 42,000 | **(1/2)** |
| Less exempt amount *follow-through amount from above* |  | (23,000) | **(1/2)** |
|  |  | 19,000 |  |
| *No other amounts* |  |  | **(1/2)** |
| Class 1A NIC @ 13.8% |  | £2,622 | **(1/2)** |

**(2 marks)**

**Total 15 marks**