

Institution **CIOT - ATT**  
Course **ATT Paper 3 Business Compliance**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>783</b>	<b>3505</b>	<b>4188</b>
Section 2	<b>490</b>	<b>2109</b>	<b>2518</b>
Section 3	<b>405</b>	<b>1782</b>	<b>2047</b>
Section 4	<b>419</b>	<b>2024</b>	<b>2402</b>
Section 5	<b>541</b>	<b>2466</b>	<b>2957</b>
Section 6	<b>399</b>	<b>1875</b>	<b>2205</b>
Total	<b>3037</b>	<b>13761</b>	<b>16317</b>

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Answer-to-Question- \_1\_

1) Companies must register for VAT when their taxable supplies made in the previous 12 months exceeds the VAT threshold of £90,000. Or at any time there are reasonable grounds to believe that taxable supplies made in the next 30 days will exceed £90,000.

Standard rated supplies = Taxable

Zero rated supplies = Taxable

Exempt supplies = Not taxable.

Monthly taxable turnover:

Standard rated supplies	13,200		
Zero rated supplies	6,700		
Total	19,900		
90,000/19,900	4.5 months		
Therefore threshold is exceeded in	5 months		

5 months from 1 April = 1 August 2024

Amira must notify HMRC within 30 days of exceeding this threshold i.e. 31 August 2024. VAT will then be charged from 1 September 2024 (This is when she is VAT registered).

2) Failing to register by the deadline will result in 3 things:

1. Their registration is backdated to the date when they were liable to be registered
2. Output tax must be accounted for on the supplies from the date which they should have notified HMRC to the day before HMRC are actually notified.
3. They are liable to a penalty for that period.

The penalty is then based on the behaviour of the trade and is a percentage of the potential lost revenue.

Behaviour	Maximum penalty	Min penalty with unprompted disclosure	Min penalty with prompted disclosure
Non deliberate	30%	<12m >12m NIL 10%	<12m >12m 10% 20%
Deliberate but not concealed	70%	20%	35%
Deliberate and concealed	100%	30%	50%

In Amira's case as she had no knowledge of VAT thresholds and registration the likely maximum penalty is 30% of the revenue lost. However if she notifies HMRC on her own accord within 12 months this could be reduced to Nil.

3) When new employees start the employer needs to report several details to HMRC:

Amira will need to report the date the new employment started, the employee's address and the employee's passport number (if known) on the FPS for when the employee is first paid.

Amira will also need to report a starter declaration for the employee and determine the tax code to apply.

- If the employee has a P45 and the date of leaving the employment is the current tax year the P45 can be used to complete the starter declaration and the tax code on it should be used

Amira must ask the employee to state one of three things:

1. Is this the employee's first job since the 6 April and they have not been receiving taxable benefits like JSA.

If this is the case the employer will deduct tax on a cumulative basis.

2. This is now the employee's only job but they had another job in the tax year.  
 Emergency code must be operated.

3. The employee has another job in this case the BR code will be used with no PA.

4) Student loan deductions:

Student plan 1 loan monthly limit = £2,082.

$$(2,500 - 2,082) \times 9\% = £37.62 \text{ rounded down} = £37$$

Post graduate loan limit = £1,750

$$(2,500 - 1,750) \times 6\% = £45$$

Total monthly student loan deductions = £82

5)

benefit	taxable?	reason	when to report	how to report
Non-job related accomo dation	Yes	not necessary for his work to be carried out	6 July following end of tax year.	On P11(d)
Petrol car	Yes	Otherwise Cavan would have had to pay for his own car so receiving one is a taxable benefi	On or before date of monthly salary payment. 31 May for annual summary	Via the FPS as benefit can be payrolled. Report total on P60
Smart phone	No	One smart phone is allowed per employee and is an exempt benefit	-	-
Calls and data	Yes	Treated as cash earnings as normally Cavan would bear this cost	On or before date of monthly salary payment. 31 May for annual summary	Via the FPS as benefit can be payrolled. Report total on P60

6)

Accommodation: Higher of rents paid by the employer or the annual value

Rents paid by employer =  $2,300 \times 12 = £27,600$   
Annual value = £27,000

Therefore benefit = £27,600.

Car: CO<sub>2</sub> emissions =  $115 - 75/5 + 20 = 28\%$ .

CO<sub>2</sub> percent x list price - capital contributions (max 5k)

$28\% \times 26,500 - 5,000 = £6,020$

Calls and data =  $75 \times 12 = £900$

Total amount assessable for 2024/25

Accommodation	£27,600		
Car	£6,020		
Phone	£900		
Total	£34,520		

7)

Existing car benefit = £6,020

$6,020 \times 40\% = £2,408$

New hybrid car = percentage per tax tables = 12%  
 $18,800 \times 12\% = £2,256$

$2,256 \times 40\% = £902$

Petrol car	2,408		
Hybrid car	902		
Net cash difference		1,506	

Cavan will save £1,506 by opting for the hybrid car. This will be more tax efficient.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

1)

Does it need to carry out annual adjustment:

Simple test 1:

Total input tax incurred is no more than £625 per month on average and the value of exempt supplies is no more than 50% value of all supplies:

$$29,040/12 = £2,420$$

Test 1 does not apply

Simple test 2:

Total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50% value of all supplies:

$$29,040 - 7,200 = £1,820 \text{ per month}$$

Test 2 does not apply.

Annual adjustment needs to be made:

Input tax to be recovered calculated on the annual figures	24,433	420,000/1,723,200 = 24% x 18900 = £4,607 290,040-4,607 = 24,433	
Less:			
Input tax actually recovered	25,550		
Annual adjustment	(1,117)		
Additional unput tax to be recovered	(1,117)		

or repaid to HMRC			
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Additional input tax due to HMRC £1,117

2)

Points threshold = 4 for quarterly returns

Quarter ended	Amount	Late filing?	Late Payment	Penalty
30 June 23	72,000	Yes	No	1 Point
30 September 23	18,000	No	No	-
31 December 23	7,500	Yes	Yes	1 Point 2% £150
31 March 24	22,000	Yes	Yes	1 Point Within 15 days NIL
31 June 24	28,000	Yes	Yes	1 Point £560
30 September 24	56,000	No	No	-
31 December 24	13,000	Yes	No	1 Point

Interest = £710

Exceeded 4 points so = £200 + £200 = £400

Total = £1,110

3)

a)

As Esme is only going on a temporary secondment of 4 months which is less than 183 days she will remain a UK resident.

Sheine Ltd will need to continue to deduct PAYE tax from Esme's employment income. As she remains on a UK contract UK taxation rules will apply and she will be able to receive double taxation income.

Any duties relating to UK work are always taxable in the UK

b) UK work days are generally taxable on a receipts basis meaning as they arise income

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tax will be due. This means Sheine ltd would normally need to dedduct PAYE from Gorka's salary.

However there exists specials rules for short term business visitors (STBVs):

- Resident in a country with which the UK has a double taxation agreement
- Coming to work for a UK company or UK branch of an overseas company
- Expected to spend less than 183 days in the UK.

Gorka meets these criteria so can be classed as an STBV what thiss means is he can be paid in gross with no UK tax deducted. However NICs will still need to be held unles Gorka can obtain a Portable Document A1 (PDA1) issued by the social security adminsitration in Spain.

One note is where the employee is present in the UK for 60 days (2 months or more) The UK branch must not bear the costs of employment I.e. The salary must come from the Spansish branch.

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-----ANSWER-2-ABOVE-----  
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 -----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

1) Bad debt relief available to Tails Ltd.

Conditions to claim bad debt relief:

- They have supplied goods/ services and have accounted for and paid output tax to HMRC.
- The consideration has been written off in their accounts as bad debt
- The value being written off is not more than the selling price
- The debt is at least 6 months old.

Invoices	Net	VAT	Gross	Cash paid	Outstanding
30 June 24	2,000	0	2,000	2,000	NIL
9 July 24	1,000	200	1,200	1,200	NIL
1 Aug 24	3,000	600	3,600	1,000	2,600
1 Oct 24	800	0	800		800
10 Dec 24	2,700	540	3,240		3,240

Cash received is allocated to older invoices first.

Invoices which are 6 months old:

1 August 2024. This is the only one eligible to claim bad debt relief:

$$2,600 \times 1/6 = \text{£}433$$

This amount will be treated as input tax on the VAT Return to 31 March 2025.

2)

Director so carried out on a cumulative basis. However causes distortion so we can calculate on a monthly basis

Month	Earnings	NIC @8%	NIC @2%	Total £	Rounded
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April 2024	6,160	251.28	39.42	290.70	291
May 2024	6,160	251.28	39.42	290.70	291
June 2024	28,660	251.28	489.42	740.70	741
July 2024	6,160	251.28	39.42	290.70	291
August 2024	6,160	251.28	39.42	290.70	291
September 2024	6,160	251.28	39.42	290.70	291
October 2024	6,160	251.28	39.42	290.70	291
November 2024	6,160	251.28	39.42	290.70	291
December 2024	6,160	251.28	39.42	290.70	291
January 2025	6,160	251.28	39.42	290.70	291
February 2025	6,160	251.28	39.42	290.70	291
March 2025	6,160	251.28	39.42	290.70	291
Total				4,229	

3a) Tails Ltd must keep records of the statutory payments dates and amounts paid.

The amounts paid must be reported on a full payment submission. The amounts paid are recorded on the employee's P60 as well as the gross pay.

Records must be kept for at least 3 years after the end of the tax year to which they relate.

b) Statutory maternity pay:

Average weekly earnings must be greater £123 and have been employed for 26 weeks.

These are met:

First 6 weeks = average weekly earnings x 90%

Average weekly earnings =  $386.25 \times 90\% = £347.63 \times 6 = 2,086$

Remaining 33 weeks = lower of 90% of weekly earnings or £184.03

33 x 184.03 = £6,073

Week	Pay	Total	
first 6 weeks	2,086		
remaining 33 weeks	6,073		
Total		£8,159	

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

1) The default method is to spread transitional profits across 5 years.

2/5 months	6,000	
Transitional profits	4,000	As ceasing the rest need to be taxed. 1/5 already taxed in 2023/24
Assesable profits	£10,000	

2)

Factors determining employment vs self employment:

4 factors which must be present to be classed as an employee

Mutualtiy of obligation - Marcia was designated tasks and made to work according to Turise Ltd. This work was not option.

Wage paid to worker not 3rd party - If Marcia had engaged directly she would have been the one paid and not Pazzax ltd.

Personal service - Marcia did not have the freedom to send someone else instead of her to the conference indicating she is an employee

Control - Turise Ltd controls the hours that Marcia works and worked according to Turise ltds standards

There are other factors such as degree of intergartion into the company, an example of this for Marcia would be at the conference she was introduced as being from Turise Ltd.

Therefore if Marcia had engaged directly she would have been deemed an employee.

3)

If the intermediary did not exist the individual would be taxed as an employee the offpayroll rules mean the income is taxed as a salary for the worker. The rules apply where the worker owns greater than 5% of shares - this is the case for Marcia. Small company rules apply.

Income from relevant engagements	65,000		
Less 5% automatic deduction	(3,250)		
	61,750		
Less expenses paid by employer			
Employer pension contributions	(1,000)		
Employer NICs on worker pay. 15,000-9,100 x 13.8%	(814)		
Less actual salaries paid	(15,000)		
Gross deemed payment	44,936		
Less employers NIC included ( 44,936 x 13.8/113.8)	(5,449)		
Net deemed employment payment	39,487		

Net deemed employment payment = £39,487

#### 4) Pazzax Ltd's reporting and payment obligations:

Any payments of salary during the tax year will need to be reported on a full payment submission on or before the time of payment as normal. I.e. before the end of each month.

The deemed payment must also be reported on the FPS on or before the 5 April 2025.

HMRC will also accept an estimated payment of PAYE and NICs on 22 April 2025 where the payment is made electronically (otherwise 19 April 2025) with any outstanding amounts due to be made by the following 31 January 2026. (if an estimate was made).

The deemed salary payment and the related employer's Class 1 NICs can be deducted in arriving at the chargeable profits for Pazzax Ltd.

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 -----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

1) Penalty due on the late filing of the corporation tax return.

The return was originally due on the 30 September 2023. Therefore was 9 1/2 months late.

Filing penalties:

Immediate flat rate penalty	£100		
Filed more than 3 months late	£200		
Total filing penalty	£300		

Late payment of CT liability:

9.5 months late (291 days)	85,000	$291/365 \times 7.75\%$	5,252
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Total penalties = £5,552

2) Ethical guidance for POZ LLP:

POZ LLP needs to do their best to ensure an accurate return completion from information provided by the client.

POZ LLP needs to put in writing an engagement letter detailing the relevant deadlines for matters they are engaging on. For example filing deadlines as well as when information from Jaybird Ltd is required to complete the CT return. Making clear to Jaybird Ltd any consequences of not following the advice.

Whilst POZ LLP has a duty of care to do the best by their clients. Within this engagement letter it needs to remain clear that the final responsibility is down to Jaybird Ltd as they are the ones who need to review and accept any prepared returns before POZ LLP files them. POZ LLP will not be liable for any penalties incurred by Jaybird Ltd for not following the recommended advice and missing due dates.

3) Close companies:

Close companies are companies which are resident in the UK and controlled by either:

Five or fewer participants (shareholders) Or  
Any number of directors who are also shareholders.

Control is established over a company when the above persons together hold more than 50% of the companys shares.

We must also include shares owned by an indiviudals immediate family like their spouses or siblings.

Shareholder	Percentage		
Ceri + Harley	20%		
Mel + Saj	20%		
Other shareholders (10% each)	60%		
	100%		

Therefore Jaybird Ltd is a close company because 3 people own 50% which satisifies the conditions of five or fewer participants.

4) Loan implications for Jaybird Ltd:

Yani is not an employee or Jaybird Ltd.

There is a charge on Jaybird Ltd at 33.75% on the lower of the amount outstanding on the last day of the accounting period or the normal due date

Amount outstanding on 30 September 2023 = £30,000

Amount outstanding on 1 July 2024 = £20,000

Therefore the tax due on 1 July 2024 is  $£20,000 \times 33.75\% = £6,750$

Loan written off:

The repayment of this tax will be refunded when the loan is written off or paid off. The refund is made by reducing the companys corporation tax liability.

The refund is avaiable on 1 July 2025.

This will be less the amount written off =  $20,000 - 4,000 = 16,000 \times 33.75\% = £5,400$

5)

As Yani is not an employee the loan will be taxed as a dividend instead of as employment income.

This dividend will be received when the loan is written off = £4,000 on 1 October 2024.  
Yani will then need to pay tax via self assessment:

This will be due on the 31 January following the end of the tax year = 31.01.2026

The amount will be £4,000 x marginal rate of tax

If he was BR tax payer and received no other dividends =  $4,000 - 500 \times 8.75\% = £306$

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

1)  
 Rhianfa

Tax on grant of the shares is always exempt. The option must be excercise within 10 years of grant. 2 Feburary 2025.

There is an income tax charge only if the options were granted at a discount.

Lower of:			
Market value of shares at grant	£4		
Market value of shares at excercise	£9		
Less option Price	(£3)		
Amoount chargeable	£1		
Chargeable to Income Tax	£1,000		

Guy

Guy excercised his options more than 10 years after the grant of shares. Therefore favourable treatment will not apply.

Market value at excercise	£11		
Cost of the shares	£3		
Amount chargeable	£8		
Chargeable to income tax	£8,000		

2)

In order for Rhianfa and Guy to have been eligilbe to join the EMI scheme they must have met the following conditons:

- They must have been full time employees (i.e. workign greater than 25 hours per week)
- They did not have material interest in the company (i.e. owned more than 30% of the share capital)
- They were of 2 of no greater than 250 employees.

3)

Wolere Ltd's reporting obligations:

In order for an EMI option to qualify for favourable tax treatment the employer must notify HMRC by 6 July following the end of the tax year (6 July 2025) that the grant has taken place.

Notification is made online and reports information such as the date the option was granted, the number of shares over which it was granted, the market value of the shares at grant and the price employees had to pay to excercise.

Wolere must withhold the income tax as PAYE from the employees. If the shares are readily convertible assets they will also be subject to NICs. This is rpeorted via usual payroll.

4)

Item	Taxable	Exempt	Ex - Gratia	Reason
Statuorty redundancy pay			7,000	Not work related, relates to termination
Bonus recognising work done for company	20,000			Relates to contractual work
PILON	18,000			Should have been working for this amount to be paid so treated as regular NSI
Car			32,000	Benefit received
Ex gratia			10,000	
Pension contrirbution		3,000		Always an exempt benefit
Total	28,000	3,000	49,000	
Exemption		(3,000)	(30,000)	First £30,000 of exgratia is exempt from taxation

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Taxable	28,000		19,000	
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Taxable as NSI = £28,000

Taxable as top slice of income = £19,000

Total = £47,000

5) Class 1A NICs are charged on ex-gratia payments in excess of £30,000:

$19,000 \times 13.8\% = £2,622$