

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- 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.

Important Information – Please read carefully

- An Excel spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, please note that all Excel calculations and workings that you wish to include as part of your answer **must** be copied into the word processor answer box, otherwise they will not be marked.

1. You are a tax adviser and Mei Li and her husband Peng are your clients.

Mei Li is an architect and has recently set up a VAT registered, unincorporated business based in the UK. She has recruited five employees.

Pension schemes

Mei would like to set up an occupational pension scheme. Four employees who are each paid a gross salary of £3,500 per month will join the scheme and will make employee contributions of 3% of their salary. Mei will make employer contributions of 5%.

The fifth employee, Wenda, already has a personal pension scheme. Wenda will receive a gross salary of £238,000 pa from Mei. Wenda will initially make net contributions of £12,000 pa into her pension scheme and Mei has agreed to pay in £30,000 pa. Wenda is keen to increase her pension contributions as much as possible and has no unused annual allowance from previous years.

VAT

During the quarter to 31 December 2025, Mei had the following transactions:

- a) Sale of building materials for £40,000 to a VAT-registered customer in France.
- b) Purchase of design services for £12,000 from a company based in the USA.
- c) Purchase of surveyor services for £8,000 in relation to a sale of land in Germany, from a German VAT-registered company.

Mei uses postponed VAT accounting.

Peng – VAT

Mei's husband Peng is employed in Mei's business. Over the past two years, Peng has taken up a hobby of buying items from charity shops in affluent areas and selling them online for substantial profit. He has just registered for VAT. In 2025/26, he expects the income from his hobby to be approximately £100,000. He has recently read an article about Making Tax Digital for VAT and needs advice on whether he is affected and what records he needs to keep. Peng currently keeps all receipts from purchases and maintains a spreadsheet to record sales and purchases.

Requirements:

- 1) **Explain how Mei's employees obtain Income Tax relief for their contributions to the occupational pension scheme and the personal pension scheme and state the time limit for Mei to make a payment into the occupational pension scheme.** (3)
- 2)
 - a) **Calculate the monthly earnings subject to PAYE and NIC for the employees in the occupational pension scheme.** (1)
 - b) **Calculate the maximum contribution which Wenda can make during 2025/26 without being subject to an annual allowance charge.** (4)
- 3) **Explain the treatment for VAT of each of the transactions during the quarter ended 31 December 2025 and calculate the amounts to be included in the VAT account.** (4)
- 4) **Explain if Making Tax Digital for VAT will affect Peng and if so, the implications for him.** (3)

Total (15)

2. CG Tech Ltd is a company selling custom software solutions. It commenced trading on 1 June 2025. The company was not VAT registered initially but applied for voluntary VAT registration and became registered from 1 August 2025.

In the first six months of trading the following occurred:

- a) On 15 July 2025, CG Tech Ltd purchased computer equipment for £6,000 plus VAT from a VAT registered supplier. The computer equipment has been used for business purposes since purchase.
- b) On 10 August 2025, a customer was invoiced £5,000, net of VAT, with a 10% prompt payment discount offered if they paid within 14 days. The customer paid on 20 August 2025, taking the discount. Normally CG Tech Ltd's terms are that invoices must be paid within 30 days. CG Tech Ltd had performed the services for the customer on 8 August 2025.
- c) On 1 September 2025, CG Tech Ltd invoiced £12,000 plus VAT for software development services, to be delivered continuously to a client over a 12 month period.

Your firm has just taken on CG Tech Ltd as a new client and uses retainer arrangements for all new clients. During initial discussions, it also became apparent that CG Tech Ltd needed some legal advice, so you put the company in touch with a specialist firm of solicitors. As a result of the solicitors accepting CG Tech Ltd as a client, your firm was paid £500 commission by the solicitors.

Requirements:

- 1)
 - a) **Explain whether CG Tech Ltd can reclaim the VAT on the computer equipment purchased on 15 July 2025.** (2)
 - b) **Explain the tax point for the invoice raised on 10 August 2025 and how CG Tech Ltd should deal with the prompt payment discount.** (3)
 - c) **Explain the tax point for the software services invoiced on 1 September 2025 and calculate the amount to be recorded in the VAT return for the quarter ended 31 October 2025.** (2)
 - d) **State six items which CG Tech Ltd must include on its invoices for VAT purposes.** (3)
- 2) **Applying the Professional Rules and Practice Guidelines (PRPG), explain the steps you should take in relation to the retainer arrangements of your firm and the commission received.** (4)

Total (14)

3. Conifer Ltd is a digital marketing company owned by four shareholders:

<u>Name</u>	<u>Shareholding</u>	<u>Status</u>
Emma Brightwell	50%	Director
Aiden Evans	25%	Director
Nick Draper	15%	Shareholder
Yeng Cheng	10%	Shareholder

Emma and Aiden are both full time employees of Conifer Ltd. Nick and Yeng do not work for the company.

Continued

Continuation

Loans

During the accounting year ended 31 March 2026, the company made the following loans:

- a) On 1 July 2025, £20,000 at an interest rate of 0.5% to Emma, to help fund an extension to her house. She repaid the full amount on 1 February 2026.
- b) On 1 August 2025, £40,000 to Nick. The loan is interest-free and the full amount remains outstanding at 31 March 2026. Nick has no intention of repaying the loan for several years.

Employees statutory payments

Ellie, aged 29, has worked at Conifer Ltd for three years and earns £600 per week. She was expecting her first child and went on maternity leave the week starting 29 June 2025. Her expected week of childbirth was 13 July 2025. She gave the required notice and provided a MAT B1 form confirming the due date.

James, aged 34, was off sick due to surgery from 2 June 2025. He earned £140 per week. He provided a fit note (sick note) covering four weeks. James had no previous sickness absence in the previous eight weeks.

Employees – NIC

During April 2025, Conifer Ltd made the following payments to employees:

£6,500 monthly salary to Margaret Smith. Margaret is 47 years old.

£1,100 to Liam. He had recently been recruited by Conifer Ltd and is a government approved apprentice, aged 19, who earns £1,100 per month. He works five days per week.

Share options

Conifer Ltd has plans to expand its business very quickly and estimates that in one year's time it will have recruited 20 full time employees and will have gross assets of £20 million. As the digital marketing industry is very competitive, in order to recruit the best employees, it would like to offer share options as part of remuneration packages.

Conifer Ltd is proposing to grant 10,000 options to every employee it recruits. The market value of the shares at the time of grant will be £5 per share. It estimates that in four years' time, the share sale price will be £15 per share. The directors have agreed that they will buy shares back from any employees who wish to sell them after the date of grant. Each employee would own less than 5% of the total share capital in Conifer Ltd. Each employee will be paid a salary of £65,000 pa.

Conifer Ltd would like to choose an HMRC Approved Share Option Scheme and one which minimises the tax liability for the employees in the future.

Requirements:

- 1) **Explain and calculate the Income tax, National Insurance Contributions (NICs) and Corporation Tax implications of the loans.** (6)
- 2) **Calculate the total statutory payments due to:**
 - a) **Ellie and;**
 - b) **James.** (3)
- 3) **Calculate the employer and employee Class 1 NICs for Margaret and Liam for April 2025.** (4)

Continued

- 4) a) Explain which of the HMRC Approved Share Option Schemes, Conifer Ltd would be eligible for and recommend which is the most suitable, considering the Income Tax and NIC implications. (4)
- b) Calculate the tax and employee National Insurance liability if the scheme was unapproved, assuming all employees are additional rate taxpayers. (1)

Total (18)

4. You are a tax adviser employed in a large tax practice.

Your firm acts for AB Design Partners. The two partners are Ann and Beck. They commenced to trade in partnership on 6 April 2000, with Ann as the nominated partner, and partnership accounts prepared to 31 March.

Prior to 1 October 2025, partnership profits were allocated 60% to Ann and 40% to Beck. Interest of 5% pa was paid on Beck's capital contribution of £10,000. From 1 October 2025, the partners agreed that Ann would be allocated an annual salary of £80,000. Interest on Beck's capital contribution would continue at 5% pa, and the remaining profits would be shared equally.

The tax-adjusted trading profits of AB Design Partners for the nine months ended 31 December 2025 were £216,000. Ann took drawings of £18,000 from the partnership bank account in December 2025.

On 31 December 2025, Beck left the partnership. Ann continued to trade, offering the same design services as a sole trade, AB Designs.

On 1 February 2026, Beck became an employee of Textize Ltd. Beck's salary is £24,000 per year. Beck uses her own car for her employment travel, driving 1,000 business miles per month. Textize Ltd pays her 55p per business mile.

During preparation of the final partnership return for AB Design Partners, Ann tells you that HMRC repaid £24,000 of VAT into the partnership bank account in November 2025. The amount due to be repaid to the partnership was only £2,400. You explain to Ann that the excess amount must be paid back to HMRC. You advise her of the consequences of failure to make repayment, and you confirm your advice in writing. However, Ann remains unwilling to notify HMRC or to repay the VAT owed.

Requirements:

- 1) Calculate the tax-adjusted trading profits of AB Design Partners for the nine months ended 31 December 2025 allocated to each of the two partners. (6)
- 2) Explain why and when VAT deregistration is required, and the process for deregistration. (3)
- 3) Calculate the National Insurance Contributions (NICs) payable by Beck for 2025/26. (4)
- 4) Applying the guidelines in Professional Conduct in Relation to Taxation (PCRT), explain the actions you should take in respect of the excess VAT owed back to HMRC. If you took no action, explain how the fundamental principle of professional behaviour would be threatened. (4)

Total (17)

5. You are a tax technician employed in the finance department of London-based business consultants Conyer Ltd. Your work is in payroll and Corporation Tax compliance.

Conyer Ltd is registered with HMRC to report tax benefits via the payroll wherever possible.

Three employees have asked you to explain how their tax codes were arrived at:

- a) Bryony, who is 22, began employment with Conyer Ltd on 15 April 2026. This is Bryony's first job. She has provided identification to Conyer Ltd but has not yet completed a starter checklist. Income Tax equal to 20% of her entire month's salary was deducted. This was more than Bryony expected to be taken under PAYE since her salary is less than £30,000 pa and she does not receive any employment benefits.
- b) Kerrin is Conyer Ltd's marketing manager. Kerrin's salary is £148,000 pa. Conyer Ltd has provided Kerrin with use of a company car since January 2024. The car's list price in January 2024 was £25,000. Kerrin made a capital contribution of £6,000. The car has CO₂ emissions of 140g/km. Kerrin pays for all petrol.
- c) Sean has been employed by Conyer Ltd since May 2018. He is registered blind. His salary is £62,000 pa. Sean has elected for tax of £1,600 due under self-assessment for 2023/24 to be collected via PAYE during 2025/26.

5% of every employee's salary is deducted and paid into Conyer Ltd's occupational pension scheme.

Xenia began employment with Conyer Ltd on 6 April 2026. In addition to her salary, Conyer Ltd provides Xenia with an interest-free loan of £10,000 and medical insurance. The week Xenia joined, the company bought her a ticket to a horse race. The ticket was covered by a PAYE Settlement Agreement. Xenia wants to know when Conyer Ltd will provide annual summaries of her income and all her benefits, in addition to the information on her payslip each month.

Paolo, a director of Conyer Ltd, asks whether you will prepare his paper Income Tax return for him. Paolo is hoping you can do this during your working hours at Conyer Ltd. You suggest that Paolo should ask your line manager, Jelena. Paolo says that he is senior to Jelena and that there is no need to tell her, or anyone else.

Requirements:

- 1) **Explain, with calculations where needed, the PAYE codes applicable to Bryony, Kerrin and Sean.** (11)
- 2) **With reference to each of Xenia's benefits, explain the forms Xenia will receive, in addition to her payslips, showing details of her salary and each of her benefits for 2026/27, and state the dates by which Conyer Ltd must provide the relevant forms to her.** (4)
- 3) **Applying two of the fundamental ethical principles, explain whether you should do as Paolo asks.** (3)

Total (18)

6. Tula is the sole director and shareholder of Proove Ltd. The company supplies luxury baked goods to the hospitality sector. The business has grown rapidly since Proove Ltd began to trade on incorporation on 1 April 2023, with total taxable profits (TTP) for the first three years as follows:

- a) Year ended 31 March 2024: TTP £66,500;
- b) Year ended 31 March 2025: TTP £1,520,000;
- c) Year ended 31 March 2026: TTP £2,600,000.

The company has neither paid nor received any dividends to date.

Continued

Continuation

Tula's uncle, Ab, used to work in a tax practice, but retired many years ago. Ab has helped with preparation of Corporation Tax returns and calculations for Proove Ltd.

Submissions and payments of Corporation Tax have been made by Proove Ltd for its first three years.

For the year ended 31 March 2024, tax of £9,025 was paid on 31 March 2025 and the Corporation Tax return was submitted the same day. During April 2025 Tula received a demand for further tax, which Proove Ltd paid in full on 30 April 2025.

For the year ended 31 March 2025, HMRC agreed that the correct amount of tax was paid and on time.

For the year ended 31 March 2026, tax of £550,000 was paid on 14 April 2026 and the Corporation Tax return was submitted the same day.

Tula has received a letter from HMRC showing additional Corporation Tax due for the year ended 31 March 2026. Ab cannot find any error in his calculation.

Tula has asked for help to understand the communications from HMRC.

Requirements:

- 1) **Calculate Proove Ltd's Corporation Tax liability for the years ended 31 March 2024 and 2026. A calculation is not required for the year ended 31 March 2025. Tax rates and limits are the same for all Financial Years.** (3)
- 2) **Based on Proove Ltd's results for the year ended 31 March 2026, explain, with a calculation, when Corporation Tax was due for payment.** (3)
- 3) **Assuming Proove Ltd pays all remaining overdue tax on 14 May 2026, calculate the interest payable/repayable in respect of Corporation Tax for the years ended 31 March 2024 and 2026.** (8)
- 4) **Explain the date until which records must be kept relating to Proove Ltd's year ended 31 March 2024. State the maximum penalty payable if adequate records are not kept.** (2)

Total (16)