May 2026 Examination

PAPER 3

Business Compliance

Suggested Answers

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

1.

1)

Contributions to occupational pension schemes are made gross. **(1/2)** The employee's contributions are deducted from gross pay for PAYE but not for NIC purposes. **(1/2).** Full tax relief is received at source when the payment is made. **(1/2)** Tax relief is given at the employees highest marginal rate **(1/2).** Contributions deducted must be paid into the pension scheme within 19 days of the end of the tax month in which they were deducted (22 days if paid electronically). **(1/2)**

Payments to personal schemes are made net of 20% tax. **(1/2)** If a taxpayer is a higher or additional rate taxpayer they obtain relief by extension of the basic rate and higher rate bands by the amount of the gross pension contribution. **(1/2)**

Max 3 marks

2)

a)

Earnings subject to PAYE are gross salary less employee pension contribution of £105 (£3,500 x 3%) so £3,395 (£3,500 - £105).**(1/2).**

The earnings subject to NIC's are £3,500. **(1/2)**

1 mark

b)

Wenda's threshold income is her salary less gross pension contributions:

	£
Salary	238,000
Less gross pension contributions (£12,000 x 100/80)	(15,000) **(1/2)**
Threshold income	223,000**(1/2)**

Threshold income exceeds £200,000. Adjusted income needs to be calculated to establish if the tapering provisions apply.

Net income	238,000
Add employer contribution	30,000**(1/2)**
Adjusted income	268,000**(1/2)**

As adjusted income is more than £260,000 the tapering provision apply

Excess income = £8,000 (£268,000-£8,000). **(1/2)**

The restriction = £4,000 (£8,000 / 2). **(1/2)**

The annual allowance is therefore £26,000 (£60,000 - £4,000 - £30,000). **(1/2).** The maximum amount payable is £20,800 (£26,000 x 80%). **(1/2).**

4 marks

3)

Sale of goods to a French business. This is a business to business transaction and will be a zero-rated export **(1/2)**. Therefore, no VAT in respect of this will appear on the VAT account **(1/2)**

Purchase of design services from the USA. This is a supply of business services from outside the UK. As the recipient of the services belongs in the UK **(1/2)**, the supply is treated as being made in the UK and the reverse charge system will apply. **(1/2)**

UK VAT at 20% should be accounted for by Mei as follows:

Output VAT = £12,000 × 20% = £2,400**(1/2)**

Input VAT = £2,400 (fully recoverable as it relates to taxable business activities) **(1/2)**

There will be net no VAT payable

Purchase of surveyor services from Germany. This is a supply of services under the general business to business rule. The place of supply is where the land is situated and so this will be Germany. **(1)**

The supply will be outside the scope of VAT. **(1/2)**

Max 4 marks

4)

As Peng is VAT registered he will need to use MTD for VAT. **(1/2)**

He will be required to keep digital records and send quarterly returns to HMRC**(1/2)**, using MTD for VAT compatible software. **(1/2)** The software can use digital links **(1/2)** to exchange data from Peng's spreadsheet **(1/2)** and to then submit the VAT return information electronically to HMRC's systems. **(1/2)**

3 marks

2,

1)

a)

CG Tech Ltd can reclaim the VAT on the computer equipment purchased on 15 July 2025, despite the purchase being made before the effective date of VAT registration (1 August 2025), **(1/2)** provided the following conditions are met:

- The goods were purchased within 4 years of the VAT registration date. **(1/2)**
- The goods are still on hand and used in the business at the time of registration. **(1/2)**
- The VAT invoice is held as evidence of the input tax incurred. **(1/2)**

The input VAT on the £6,000 **(1/2)** computer equipment can be reclaimed on CG Tech Ltd's first VAT return.

Max 2 marks

b)

The basic tax point for services is the date they were performed. **(1/2).** The basic tax point can be overridden and in this case as an invoice was issued within 14 days of the basic tax point, and the payment is not before the basic tax point, then the actual tax point is the date of the invoice, so, 10 August 2025 **(1/2)**

If a prompt payment discount is offered and taken, VAT must be accounted for based on the amount actually paid. **(1/2)**

Therefore, output VAT of £900 should be accounted for: 10% discount on £5,000 = £500 **(1/2)**. The net amount paid = £4,500. The VAT is therefore 20% x £4,500 = £900**(1/2)**

Given the customer took the prompt payment discount, they will be issued with a credit note of £500 plus VAT so £600. **(1/2)**

Credit was also given where candidates mentioned that the terms of the discount may have been included on the original invoice.

3 marks

c)

Where services are provided over a period, the tax point is the earlier of:

- The date of invoice, or**(1/2)**
- The date of payment**(1/2)**

Since the invoice is dated 1 September 2025 and no earlier payment is indicated, the tax point is 1 September 2025. **(1/2)**
CG Tech Ltd should account for the full £12,000 plus VAT (£2,400) on the VAT return covering September 2025, despite the service being continuous. **(1/2)**

2 marks

d)

Common items to be included on VAT invoices are:

- A sequential identifying invoice number
- The date of the supply
- The date when the VAT invoice is being issued
- The supplier's name, address and VAT registration number
- Customer's name and address
- A description sufficient to identify the goods or services being supplied
- The quantity of goods or extent of services supplied
- The rate of VAT applicable to each item
- The amount charged net of VAT
- The total amount being charged

- The rate of any discount offered
- The unit price

  ½ mark each Max 3 marks

2)

The retainer arrangement should be set out in writing, with a view to ensuring that the firm and CG Tech Ltd clearly understand the extent, and limitations, of the arrangements. **(1/2)** In particular, such a letter of engagement should make clear the point at which further charges may be levied. **(1/2)**

Before agreeing to a retainer arrangement, under which CG Tech Ltd can call on the firm's services at any time, the firm should consider its ability to fulfil its obligations to other clients.**(1/2)** The firm is advised to consider carefully all the implications before entering into material retainer arrangements and should include termination arrangements in the letter of engagement.**(1/2)**

The firm should inform CG Tech Ltd of the commission fact as soon as appropriate but no later than at the time the advice is given **(1/2)**, and inform them of the amount of the commission or reward which the firm expects to receive.**(1/2)**

The firm must take care to preserve normal standards of professional care and competence, and should ensure that any advice given is in the best interests of CG Tech Ltd **(1/2)**. If required to do so, the firm should be able to justify the advice given by reasons other than the receipt of the commission.**(1/2)**

The way in which commission is to be treated should be agreed with CG Tech Ltd and it is recommended that this is detailed in the engagement letter or otherwise confirmed in writing**(1/2)**

3,

1)

As a director and employee, Emma will be subject to income tax on the value of the benefit received **(1/2)** as the loan is more than £10,000 **(1/2)** and is at an interest rate of less than 3.75% **(1/2)**. This will be £20,000 × 3.25% × 7/12 = £379**(1/2)**. Class 1A NIC will be payable by Conifer Ltd of £379 × 15% = £57**(1/2)**

Conifer Ltd is a close company as it is controlled by five or fewer participators. **(1/2)** As Emma's loan is repaid within 9 months of the year end no s455 charge applies. **(1/2)**

As Nick is not an employee, the value of the benefit will be taxed as a dividend. **(1/2)** This will be £40,000 x 3.75% x 8/12 = £1,000**(1/2)**. As Nick's loan remains outstanding at the year end and at 1 January 2027, s455 tax **(1/2)** of £40,000 x 33.75% = £13,500 **(1/2)** is payable by Conifer Ltd by 1 January 2027. **(1/2)** No corporation tax deduction for the s455 tax or the amount of the benefit/ dividend is allowed. **(1/2)**

Max 6 marks

2)

SMP is paid for 39 weeks:

- First 6 weeks: 90% of average weekly earnings (AWE)
  90% of £600 = £540/week **(1/2)**
- Remaining 33 weeks: the lower of £187.18 (2025/26 rate) or 90% of AWE
  90% of £600 = £540 so capped at £187.18/week**(1/2)**

Calculation:

- 6 × £540 = £3,240**(1/2)**
- 33 × £187.18 = £6,177**(1/2)**
- Total SMP = £3,240 + £6,177 = £9,417

SSP rate is £118.75 per week

- SSP starts after the first 3 waiting days (non-payable).
- James is sick for 4 weeks = 20 working days (assuming 5-day week)
- SSP payable = 20 – 3 = 17 days**(1/2)**
- Daily rate = £118.75 ÷ 5 = £23.75/day**(1/2)**
- Total SSP = 17 × £23.75 = £404**(1/2)**

Max 3 marks

3)

Margaret

Employee NIC:

Earnings between PT and UEL: £4,189 - £1,048 = £3,141 **(1/2)**

NIC: £3,141 × 8% = £251 **(1/2)**

Earnings above UEL: £6,500-£4,189 = £2,311

NIC: £,2311 x 2% = £46 **(1/2)**

Total employee NIC = £251 + £46 = £297

Employer NIC:

Earnings above ST: £6,500 - £417 = £6,083**(1/2)**

NIC: £6,083 × 15% = £912**(1/2)**

Total NIC for Margaret is £1,209

Liam

Earnings between PT and UEL: £1,100 - £1,048 = £52**(1/2)**

NIC: £52 × 8% = £4 **(1/2)**

Employer NIC:

No employer's NIC due: Liam is under 21 and a qualifying apprentice earning below the Upper Secondary Threshold **(1/2)**.

4 marks

4)

The two main schemes available are EMI and CSOP. Conifer Ltd would be eligible for both schemes.

The conditions for EMI are that:

- Gross assets must not exceed £30 million.
- Company must have fewer than 250 full-time employees.
- Must be a trading company
- Individual employees can hold options over shares worth up to £250,000 (at grant market value).
- Total company limit: £3 million of EMI options at any one time.
- The individual must not have a material interest in the company (<30%)

½ mark per any relevant condition maximum 2 marks for EMI

The conditions for CSOP are:

- There is no limit on size. **(1/2)**
- Conifer Ltd can grant options up to £60,000 per employee **(1/2)**

There is no income tax on grant and exercise (provided the options are exercised after three years for CSOP and at market value for EMI) Therefore, EMI would be a suitable scheme as not all employees need to be included and the directors have agreed to buy back the shares from any employees who wish to sell them after the date of grant. **(1)**

4 marks

b)

The gain per employee is £150,000 - £50,000 = £100,000.**(1/2)** Income tax of 45% so £45,000 will be payable. **(1/2)** If the shares are readily convertible assets then employee NIC at the rate of 2%, so £2,000 will also be payable. **(1/2)**

1 mark

4.

1) **Trading profit allocation per partner** **(6 marks)**

Nine months ended 31 December 2025		**Ann**	**Beck**	**Total**
		£	**£**	**£**
1 April 2025 – 30 September 2025 **(1/2)**				
£216,000 x 6/9 **(1/2)**				144,000
Interest 6/12 x 5% x £10,000 **(1/2)** **(1/2)**			250	(250)
PSR 60:40 **(1/2)**		86,250	57,500	(143,750)
1 October 2025 – 31 December 2025 **(1/2)**				
£216,000 x 3/9 **(1/2)**				72,000
Interest 3/12 x 5% x £10,000 **(1/2)**			125	(125)
Salary 3/12 x £80,000 **(1/2)**		20,000		(20,000)
PSR 1:1 **(1/2)**		25,938	25,937	(51,875)
	(1/2)	132,188	83,812	0

Drawings of £18,000 have no effect on allocation **(1/2)**

2) **VAT deregistration** **(max 3 marks)**

- VAT deregistration is needed because of the change of status from a partnership to sole trade **(1/2)**.
- HMRC must be notified of the deregistration within 30 days of the change **(1/2)**.
- This will be by 30 January 2026 **(1/2)**.
- The deregistration can be done online **(1/2)** or with a paper VAT 7 form **(1/2)**.
- The partners may agree to transfer the VAT registration to the sole trade AB Designs **(1/2)**.
- Deregistration will take effect from the date of the changing status, 1 January 2026 **(1/2)**.

3) **National Insurance** **(4 marks)**

Beck's partnership profit for 2025/26: £83,812

Class 4 NICs: (£50,270 – 12,570) **(1/2)** × 6% **(1/2)** + (£83,812 – 50,270) **(1/2)** × 2% **(1/2)** = £2,262 + £671 = £2,933

Class 1 NICs: (£24,000 × 1/12) **(1/2)** + (1,000 × (0.55 – 0.45) × 1) **(1/2)** = £2,100

£2,100 - £1,048 = £1,052 × 8% **(1/2)** = £84 × 2 **(1/2)** = £168

4) **Actions per PCRT (4 marks)**

Per PCRT Helpsheet C 1: Dealing with errors, appropriate actions are:

- Cease to act for the partnership **(1/2)**.
- Notify Ann in writing that you are ceasing to act **(1/2)**.
- Notify HMRC that you are ceasing to act **(1/2)**.
- Make an internal anti-money laundering report **(1/2)** to the firm's MLRO **(1/2)**.
- Carefully consider any professional clearance request from an incoming adviser **(1/2)**.

It would also be appropriate to consider what should be communicated to Beck.

Professional behaviour requires compliance with all relevant laws, and to refrain from bringing discredit to the profession. If no action were taken by the tax adviser in relation to unlawful behaviour by Ann, this would discredit the tax profession **(1)**.

5.

1) **PAYE Codes (11 marks)**

Bryony

Bryony's PAYE code is BR, used as an emergency code **(1/2)**. Tax is deducted at the basic rate with no allowances **(1/2)**. There will be no form P45 **(1/2)** for Bryony since this is her first job. Conyer Ltd will need to report a 'starter declaration'. A 'starter checklist' will be needed from Bryony to determine the new tax code to apply. It is likely that the revised coding will be 1257L **(1/2)**.

Kerrin

Kerrin has a negative code since benefits exceed his allowances **(1/2)**.

		£	**£**
Personal allowance (fully abated because of income)	**(1/2)**		nil
Car benefit:			
List price	**(1/2)**	25000	
Less capital contribution (capped)	**(1/2) (1/2)**	(5,000)	
Revised list price		20,000	
Cash equivalent 20,000 × 34% [(140 − 75) ÷ 5 = 13 + 21]	**(1/2) (1/2)**	6,800	
Deduct from PA			(6,800)
	(1/2)		(6,800)
Kerrin's PAYE code is (6,800/10 and deduct 1)	**(1/2) (1/2)**		K679

Sean

		£
Personal allowance	**(1/2)**	12,570
Blind person's allowance	**(1/2)**	3,130
		15,700
Sean's marginal rate of income tax is 40%	**(1/2)**	
£1,600 x 100/40	**(1/2) (1/2)**	(4,000)
	(1/2)	11,700
Sean's PAYE code is	**(1/2) (1/2)**	1170L

The 5% pension contributions do not affect the tax codes **(1/2)**.

Max 11 marks

2) **PAYE forms (4 marks)**

• Xenia's salary for the tax year will be summarised on a form P60 **(1/2)**. Xenia's first form P60 will be due to her by 31 May 2027, for 2026/27 **(1/2)**.

• Taxable benefits are summarised on a form P11D **(1/2)** which is due to the employee by 6 July following the end of the tax year **(1/2)**. The interest-free loan cannot be payrolled so would usually appear on a P11D, **(1/2)** but here this does not exceed £10,000 so will be exempt **(1/2)**. The medical insurance will not need to be shown on a P11D **(1/2)** because it is payrolled **(1/2)**. The horse-race ticket provided will not need to be shown on a P11D either, **(1/2)** since Conyer Ltd included this benefit in the PAYE Settlement Agreement **(1/2)**.

Max 4 marks

3) **Issues per PRPG (3 marks)**

Fundamental principles threatened here are (**two** required):

• Professional competence and due care **(1/2)**. Your area of work does not include personal tax **(1/2)**.

• Integrity **(1/2)**. Paolo is asking for this to be done during your employer's time **(1/2)**. asking that this be concealed from your line manager **(1/2)**. This is not honest or straightforward.

• Objectivity **(1/2)**. Paolo is using the fact that he is senior to Jelena to apply pressure. This gives him undue influence **(1/2)** over you and there may also be an element of intimidation. **(1/2)**. This threatens to influence your decision making.

You should not therefore do as Paolo asks **(1)**.

Max 3 marks

6.

1) **Corporation Tax liability (3 marks)**

Year ended 31 March 2024	**£**
TTP (and augmented profits) **(1/2)**	66,500
CT @ 25% **(1/2)**	16,625
Less marginal relief: **(1/2)**	
3/200 x (250,000 – 66,500) **(1/2)**	(2,753)
	13,872

Year ended 31 March 2026	**£**
TTP **(1/2)**	2,600,000
CT @ 25% **(1/2)**	650,000

2) **Corporation tax due dates (max 3 marks)**

Year ended 31 March 2026

With profits over £1,500,000 **(1/2)** but less than £20 million, **(1/2)** Proove is a large company. **(1/2)**

As Proove Ltd was also a large company in the year ended 31 March 2025, **(1/2)** **i**nstalment payments will be required **(1/2)**.

The first instalment is due on the 14th day of month seven of the accounting period:

14 October 2025 **(1/2)**

The remaining three instalments are due at three-monthly intervals thereafter.

14 January 2026, 14 April 2026 and 14 July 2026 **(1/2)**

Each payment will be ¼ x £650,000 £162,500

3) **Interest (8 marks)**

Year ended 31 March 2024

Total tax was £13,872			
£9,025 was paid on 31 March 2025, 3 months late			
£9,025 x 7% x 3/12	**(1/2) (1/2)**	£158	
Remainder was paid on 30 April 2025, 4 months late			
£(13,872 – 9,025) = £4,847 x 7% x 4/12	**(1/2) (1/2)**	£113	
Total for the year ended 31 March 2024			**£271**

Year ended 31 March 2026

Each payment will be ¼ x £650,000 = £162,500 **(1/2)**

£550,000 was paid on 14 April 2026

14 October 2025 instalment **(1/2)**

Paid 14 April 2026 - £162,500 late by 6 months

£162,500 x 5.5% x 6/12 **(1/2) (1/2)** £4,469

14 January 2026 instalment

Paid 14 April 2026 - £162,500 late by 3 months

£162,500 x 5.5% x 3/12 **(1/2) (1/2)** £2,234

14 April 2026 instalment

Paid 14 April 2026 – £162,500 on time so no interest **(1/2)** 0

14 July 2026 instalment

Remainder of the initial payment **(1/2)**

£550,000 – (£162,500 x 3) = £62,500			
Paid 14 April 2026- £62,500 3 months **early**			
£62,500 x 4.25% x 3/12	**(1/2) (1/2)**	(664)	
Balance to be paid on 14 May 2026 £162,500 - £62,500 = £100,000			
To be paid 14 May 2026- £100,000 2 months **early**			
£100,000 x 4.25% x 2/12	**(1/2) (1/2)**	(708)	
Total interest payable for year ended 31 March 2026			£5,331

4) **Record keeping** **(2 marks)**

Records for the year ended 31 March 2024 must be kept for six years **(1/2)** from the end of the period, **(1/2)** ie until 31 March 2030. **(1/2)**

The maximum penalty for failure to comply with this is £3,000. **(1/2)**