

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

July 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.

1. Assume the date is 1 May 2026.

You are a tax technician in practice and Proximity Ltd is a client of your firm.

Proximity Ltd is a close company which has been trading since 2015. Proximity Ltd is VAT registered and all its supplies are of standard-rated goods. Accounts are prepared to 31 December each year. The company pays Corporation Tax at 19% and has never been required to pay tax in instalments.

Proximity Ltd is owned in equal shares by three unrelated participators, Dharmesh, Eckhart and Freya. All participators are higher-rate taxpayers. Dharmesh and Eckhart are employed by Proximity Ltd and Dharmesh is the only director. Freya does not work for the company.

Benefits

Dharmesh and Eckhart each received fresh flowers bought by Proximity Ltd on the first day of every month throughout 2025/26. Each delivery of flowers cost £30.

Eckhart also received a gift of clothing costing £76 for his child who was born on 4 April 2026.

Freya received a voucher for a high street store from Proximity Ltd in December 2025. This cost the company £82.

Dharmesh had a loan of £18,000 from Proximity Ltd from 1 December 2024 until he repaid £6,000 on 1 November 2025 and then the company wrote off the remaining £12,000 on 30 April 2026. Proximity Ltd paid the correct Corporation Tax due under s.455 on 30 September 2025.

VAT returns

You review the VAT return for Proximity Ltd for the quarter ended 31 December 2025, prepared by your firm, while working on the next draft accounts. You notice that input VAT was recovered on two December 2025 invoices relating to entertainment. The invoices, both inclusive of VAT at the standard rate, were for £7,200 for entertaining local clients, and £2,100 for a party for employees at Proximity Ltd's factory. VAT of £13,800 for the quarter was paid by Proximity Ltd on 7 February 2026, but the VAT return was not submitted until 28 February 2026. Three of the VAT returns submitted during 2025 were also late.

You emailed Dharmesh two weeks ago to tell him that there has been an underpayment of VAT but he has not responded.

Plans for cessation

Dharmesh explains that there is a plan for Proximity Ltd to cease its trade at the end of 2026. However, the company will not be wound up: it will continue to receive dividends from several minor shareholdings.

Requirements:

- 1) **Calculate the Income Tax and Class 1A National Insurance Contributions arising on the benefits provided by Proximity Ltd in 2025/26.** (6)
- 2) **Explain, with a calculation, the Corporation Tax treatment of the loan repayment and write off.** (3)
- 3) **Applying the guidelines in Professional Conduct in Relation to Taxation (PCRT), identify the actions your firm should take in respect of any underpaid VAT for the quarter ended 31 December 2025.** (3)
- 4) **Calculate the VAT underpaid for the quarter ended 31 December 2025 and explain the interest and penalties that may be due if the outstanding VAT is paid to HMRC on 7 June 2026.** (6)
- 5) **Assuming Proximity Ltd's trade ceases by the end of 2026, explain the effect on the rate at which Corporation Tax is payable for the year to 31 December 2027.** (2)

Total (20)

2. Assume the date is 1 May 2026.

Margo is a VAT-registered consultant operating as a sole trader, providing recruitment services. All her VAT returns and payments are up to date, and she has never had any VAT penalty or irregularity. Margo does not belong to any VAT scheme.

Total taxable supplies were £140,000 in the year to 30 April 2026 and are likely to be £260,000 in the next year.

Margo's results for the quarter ended 30 April 2026 are as follows, inclusive of any VAT:

<u>Invoice date</u>	<u>Narrative</u>	<u>Total</u> £
<u>Outputs:</u>		
17 March 2026	Client E, a business in the UK	22,800
10 April 2026	Client F, a business in France	14,600
<u>Inputs:</u>		
2 February 2026	Marketing services from a business in Spain	3,120
25 February 2026	Train journey to Client F's office in France	280
1 February 2026	Rent of business premises for three months	4,500
15 March 2026	Stationery – no invoice or receipt was provided	320
28 April 2026	Laptop used 75% for business by Margo	1,350

Margo has had increasing problems with late-paying clients. She has kept a list of overdue invoices as follows. All of the output VAT has been paid to HMRC. Margo will submit her VAT return for the quarter ended 30 April 2026 on 8 May 2026 and she would like to claim bad debt relief as far as possible:

<u>Client</u>	<u>Invoice date</u>	<u>Due date</u>	<u>Written off in VAT account?</u>	<u>Net</u> £	<u>VAT</u> £
A	1 September 2021	1 October 2021	Yes	1,000	200
B	4 May 2023	3 June 2023	No	4,750	950
C	3 April 2024	3 May 2024	Yes	11,400	2,280
D	2 November 2025	2 December 2025	Yes	15,600	3,120
E	1 March 2026	31 March 2026	Yes	19,000	3,800

VAT scheme

Margo has read about a VAT scheme which would make bad debt relief easier, but she cannot remember the name of this scheme.

Discounts

Margo decides to encourage clients to pay promptly in future by offering discounts. She will soon be invoicing one of her clients, Q UK Ltd, for services with a value of £12,000 excluding VAT. Margo will offer a discount of 5% if payment is received within seven days. She prefers not to make use of credit notes.

Continued

Requirements:

- 1) Calculate and explain the total bad debt relief Margo can claim on 8 May 2026, showing any amounts that may not be relieved. State where in Margo's VAT return the claim should be included. (3)**
- 2) Calculate the net VAT payable or repayable by Margo for the quarter ended 30 April 2026, including the claim for bad debt relief. Identify any inputs which are zero rated, exempt, outside the scope of VAT or irrecoverable. (6)**
- 3) Identify the VAT scheme which would help with bad debt relief in future. Explain how the relief works under this scheme; whether Margo qualifies for the scheme; and what an eligible trader must do to join. (3)**
- 4) Identify the terms Margo should include on her invoice to Q UK Ltd in respect of the discount, assuming she does not wish to issue any credit note. If payment is received within seven days, calculate the output VAT payable by Q UK Ltd. (3)**

Total (15)

3. Smekt Ltd produces and sells luxury baked goods.

The business is growing and two additional workers have been appointed, Nora and Yusuf.

Nora is a marketing professional who recently visited Smekt Ltd for two weeks, advising on branding. For several years she has worked for numerous clients on short marketing projects. Nora pays a monthly membership subscription to the Chartered Institute of Marketing, an HMRC-approved body. She deducts this and the cost of her travel to clients' office premises in arriving at her self-employed profit for tax. For 2025/26 her self-employed profit was £55,000.

Nora has accepted regular work for Smekt Ltd for three days per week. This arrangement began on 1 May 2026. Nora's pay is £200 per day. She does some of her work for Smekt Ltd based at home and she will travel to the company's office at least once a week, including for monthly employee briefings. Smekt Ltd has provided Nora with a mobile phone for work and personal use. She will still advise other clients on the days she is not working for Smekt Ltd.

Yusuf has a new logistics role with Smekt Ltd which will begin on 8 May 2026. Yusuf has always work on a self-employed basis until now and this will be his first employed role. The HR officer of Smekt Ltd has sent Yusuf a 'starter checklist' to fill in as soon as possible. Smekt Ltd will provide Yusuf with use of a company car. This will not be payrolled.

Smekt Ltd will offer local deliveries from 6 October 2026 and will need a delivery driver who has their own car. Smekt Ltd plans to provide a salary of £3,200 per month; to pay 50 pence per mile travelled for work in their own car, based on an estimated 2,000 miles per month; to provide a laptop costing £840 which will have 25% work use; and to invite the driver to a staff party in January costing £260 per head. Tax on the party will be covered by a PAYE settlement agreement.

Continued

Requirements:

- 1) Calculate the National Insurance Contributions (NICs) payable by Nora for 2025/26 on her self-employed income. (1)**
- 2) Explain why Nora’s remuneration from Smekt Ltd should be taxed as employment income from 1 May 2026. Explain how this affects the Income Tax treatment of Nora’s expenditure on her travel and her professional subscription. (6)**
- 3) Explain how and when the information Yusuf provides in the ‘starter checklist’ will be used by Smekt Ltd. (3)**
- 4) Explain what information Smekt Ltd must provide to HMRC in respect of the car provided to Yusuf, and the deadline for provision. (2)**
- 5) Calculate Smekt Ltd’s liabilities to Class 1, Class 1A and Class 1B NICs in respect of the new driver’s 2026/27 employment. State when each class of NICs will be payable. Assume that the driver has no income aside from the earnings from Smekt Ltd and 2026/27 NIC rates are the same as those for 2025/26. (7)**

Total (19)

4. Brix Ltd is a VAT registered, construction company operating in the UK. It undertakes a range of work including building commercial properties, renovating existing commercial properties and building residential houses. Brix Ltd engages subcontractors on a regular basis to undertake its projects.

Creation Ltd

Throughout 2025/26, Brix Ltd has engaged the services of Creation Ltd on a renovation project. Sabrina Rook is the sole director and shareholder of Creation Ltd. Sabrina has not worked on any other assignments in 2025/26 apart from the renovation project for Brix Ltd. In total, Creation Ltd has invoiced £100,000 to Brix Ltd for Sabrina’s services. Sabrina would be an employee of Brix Ltd if Creation Ltd did not exist.

During 2025/26 Sabrina was paid a salary of £1,000 per month from Creation Ltd. Creation Ltd pays £125 per month employer contributions for Sabrina into a registered pension scheme. Creation Ltd also reimbursed Sabrina £350 in travel expenses for travel she carried out during her work for Brix Ltd and paid her annual subscription of £3,000 to the Chartered Institute of Building, an HMRC approved body.

Brix Ltd is a small company for the purposes of the off-payroll working rules.

Sam Nixon

Sam is a VAT registered bricklayer and is registered with HMRC under the Construction Industry Scheme (CIS). He is not registered for gross payment status and has always operated under the CIS reverse charge regime. Sam has recently undertaken some work for Brix Ltd and has submitted the following invoice:

	£
Labour	8,900
Materials (on which profit of £200 is included)	1,200
Hire of plant and equipment	550
Travelling expenses	330
Invoice total	<u>10,980</u>

All amounts are exclusive of VAT.

Continued

Brix Ltd

During the year, Brix Ltd undertook the following:

- (a) Sale of a new freehold commercial building;
- (b) Conversion of a commercial warehouse into residential flats for the elderly including installation of mobility aids;
- (c) Construction of a building to be used for drug rehabilitation purposes;
- (d) Supply of landscaping services outside a factory;
- (e) Purchase of a piece of land for a housing development. Architect's fees were also paid in relation to this land.

Requirements:

- 1) **Calculate the deemed employment payment for Sabrina for 2025/26 and explain the tax implications of the payment and how these should be reported, for Sabrina and Creation Ltd.** (8)
 - 2) **Calculate the amount of the CIS deduction and the amount Sam will receive from Brix Ltd.** (3)
 - 3) **Explain how each of Brix Ltd's projects will be treated for VAT purposes.** (4)
- Total (15)

5. Assume the date is 1 April 2026.

Caboon Ltd is a digital marketing company based in the UK. Caboon Ltd has asked for advice on the tax implications of payments and benefits it has provided to employees during 2025/26.

Taraf Aldweesan

Taraf is employed by Caboon Ltd on an annual salary of £65,000. During 2025/26, she received the following benefits:

- (a) Living Accommodation

From 6 August 2025, Taraf is provided with a house to live in which was bought by Caboon Ltd in 2010 for £140,000. The market value of the house in August 2025 was £420,000 and its annual value is £8,000.

Caboon Ltd also pays council tax of £2,400 and utility bills of £1,600 per year for the property. Taraf contributes £2,500 per year towards the cost of the house.

- (b) Company Vehicle

Taraf was provided with a van with CO₂ emissions of 75g/km (available for private use, with fuel provided) from 6 April 2025 until 5 January 2026. On 6 January 2026, the van was replaced with a petrol car which had a list price £36,000 and CO₂ emissions of 127g/km. Caboon Ltd paid £32,000 for the car and Taraf made a capital contribution of £6,000 towards the cost of the car. Caboon Ltd pays for all fuel.

- (c) Use of asset

From 6 September 2025, Taraf is provided with a home media set which Caboon Ltd bought for £6,000.

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(d) Pool Car

Taraf also has access to a pool car with CO₂ emissions of 120g/km and a list price of £25,000 which is kept at Caboon Ltd's premises overnight and is available for use by several employees. Taraf's access is 20 days per annum. Private use of the pool car is incidental.

James Heyes

James has been employed full time by Caboon Ltd for the last two years, working Monday to Friday each week. He is paid weekly and earns £550 per week. In October 2025, James was off sick from work for two weeks.

James's partner, Niamh, is expecting a baby due on 15 April 2026. Niamh has been in her employed role for the last five years and earns a salary of £30,000 per year. James wishes to take leave after Niamh has taken the minimum amount of her maternity leave entitlement.

Requirements:

- 1) Calculate Taraf's taxable benefits for 2025/26. You should include explanations where relevant of each item.** (10)
- 2) Calculate the Statutory Sick Pay due to James.** (2)
- 3) Explain whether James can take Shared Parental Leave and calculate how much he would be paid for this.** (3)

For parts 2) and 3) show your answer to the nearest pence.

Total (15)

6. You are a Tax Adviser in practice and act for Nala Ltd, its employees and directors. Nala Ltd manufactures electric vehicles.

Nala Ltd prepares accounts to 30 June each year. On 15 August 2024, a notice to deliver a Corporation Tax return was received in respect of the year ended 30 June 2024. However, Nala Ltd did not submit its return to HMRC until 14 August 2025.

Stefan Cruz

Stefan Cruz has lived in the UK for the past six years. He was born in Spain and had always lived there until his move to the UK. Stefan is employed by Nala Ltd in its UK Head Office in London. He is employed under a single employment contract which requires him to work nine months of the year in the UK and three months at Nala Ltd's subsidiary in Madrid, Spain. The earnings from the subsidiary in Spain are paid into Stefan's Spanish bank account in Euros. Stefan's earnings from his UK duties are paid in sterling into a UK bank account.

During 2026, Nala Ltd is considering either:

- (a) Gifting 5,000 £1 ordinary shares to Stefan.
- (b) Granting him options for 5,000 £1 ordinary shares under an Enterprise Management Incentive (EMI) scheme at an exercise price of £1 per share.

At the time of gift/grant, the market value is expected to be £4 per share.

Nala Ltd is expecting to win a lucrative contract soon and the market value of the shares is likely to increase to £5 per share in 2027 when Stefan would exercise the share options and £7 per share in 2028 when Stefan is likely to sell the shares. The 5,000 shareholding represents a holding of less than 1%.

Continued

Stefan is a higher rate taxpayer and uses his Capital Gains Tax annual exempt amount each year.

Beatrix Mount

Beatrix is a director of Nala Ltd and is paid a monthly salary of £5,500 on the last day of the month. In July 2025 she also received a one-off bonus of £10,000 in addition to her salary.

Requirements:

- 1)
 - a) **State the date by which Nala Ltd should have filed its Corporation Tax return, how long they have to make any amendments and explain the deadline for HMRC to raise an enquiry into the return.** (3)
 - b) **State how long Nala Ltd must hold its records in order to complete a Corporation Tax return and the amount of the penalty for failure to do so.** (1)
- 2) **Explain if Stefan’s earnings from his duties in the UK and Spain will be subject to UK Income Tax and whether he will be able to claim overseas workday relief.** (2)
- 3) **Calculate and explain the tax liabilities for Stefan if the shares are received under:**
 - (a) **A non-tax-advantaged scheme; or**
 - (b) **An EMI scheme.** (5)
- 4) **Calculate Beatrix’s Class 1 Primary NIC liability for April, May, June and July 2025.** (3)

Total (14)