

1.

1) Income tax and Class 1A NICs on benefits (max 6 marks)

	Dharmesh	Eckhart	Freya
	£	£	£
Gifts			
Flowers taxable on close company director above £300:			
$£(30 \times 12) - 300 =$ (1/2) (1/2)	60		
No cap on trivial benefits for employee (1/2)		0	
Gift over £50 not trivial (1/2)		76	
Vouchers at cost (1/2)			82
Loan			
Average $(£18,000 + £12,000)/2 \times 3.75\%$ (1/2) = £563			
Strict $(£18,000 \times 3.75\% \times 7/12) + (£12,000 \times 3.75\% \times 5/12)$ (1/2) = £581			
	563		
	735	76	82
Income Tax			
As employment income at 40% (1/2) (1/2)	£294	£30	
As dividend income at 33.75% (1/2)			£28
Class 1A NICs			
At 15% on employment income only (1/2) (1/2) (1/2)	£110	£11	£0

2) Loan repayment (max 3 marks)

s.455 tax of $£18,000 \times 33.75\% = £6,075$ (1/2) was paid by 1 October 2025. (1/2)

HMRC will repay £2,025 (1/2) of this $(£6,075 \times £6,000/£18,000)$ by reducing the Corporation Tax payable by 1 October 2026. (1/2)

The balance of £4,050 be repayable (1/2) to Proximity Ltd because the loan has been written off. As the loan was written off in the year ended 31 December 2026, the £6,075 will reduce the Corporation Tax payable by 1 October 2027. (1/2)

The claim for relief should be made within four years of the end of the accounting period of release (1/2)

3) Actions per PCRT (max 3 marks)

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

- Inform the client as soon as possible. In this instance, check that Dharmesh has received the email and speak with him. (1/2)
- Consider whether the VAT involved is a 'trivial' amount. This will not be the case here. (1/2)
- Advise the extra VAT (1/2) is payable and recommend payment of this as soon as possible (1/2)
- Consider whether specific authorisation is needed to disclose the error to HMRC (1/2), and check whether the engagement letter with Proximity Ltd authorises this (1/2).
- Consider informing your firm's insurers (1/2)
- If Dharmesh is unwilling to pay the extra VAT, bear in mind that it may be necessary to cease to act (1/2) and to bear in mind AML regulations (1/2)

4) Underpaid VAT (max 6 marks)

	£
Underpayment:	
Client entertainment: £7,200 x 1/6 (1/2) (1/2)	1,200
Party: not blocked (1/2)	0
	1,200

Interest: (4 months)

£1,200 x 7% x (4/12) (1/2) (1/2)	28
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Penalties:

Late payment: (4 months)

Outstanding at day 30: (3% + 3%) x £1,200 (1/2)	72
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Day 31 to end of month 4: 10% x 3/12 x £1,200 (1/2)	30

Late return – fourth within a year (1/2) (1/2) 200

There may be a penalty for a careless (1/2) error, of up to 30% x £1,200 (1/2) = 360

Prompt disclosure (1/2) may lead to this being reduced (1/2), potentially to zero.

5) CT rate from 2027 (2 marks)

- Proximity Ltd will become a close investment-holding company (CIHC) (1/2)
- The small (1/2) and marginal (1/2) rates of corporation tax will not be available. Proximity Ltd will pay all its CT at the main (1/2) rate of 25%. (1/2)

2.

1) **Bad debt relief (3 marks)**

Client	Due date	Written off in VAT account?	VAT relief	Notes
			£	
A	1 October 2021	Yes	0	Out of time to claim (4 years 6 months) (1/2)
B	3 June 2023	No	0	Not written off (1/2)
C	3 May 2024	Yes	2,280	(1/2)
D	2 December 2025	Yes	0	Too recent (less than 6 months) (1/2)
E	31 March 2026	Yes	0	Too recent (1/2)
			2,280	Claimed in Box 4 of the VAT return (1/2)

2) **VAT for the quarter ended 30 April 2026 (6 marks)**

		£	£
Outputs:			
17 March 2026	Client E, a business in the UK: £22,800/6 (1/2)	3,800	
10 April 2026	Client F, a business in France: no VAT (1/2)	0	
2 February 2026	Services from a business in Spain: £3,120/6 (1/2)	520	
			4,320
Inputs:			
2 February 2026	Services from a business in Spain (1/2)	520	
25 February 2026	Train journey zero rated (1/2)	0	
1 February 2026	Rent of business exempt (1/2)	0	
15 March 2026	Stationery irrecoverable (1/2)	0	
28 April 2026	Laptop £1,350/6 = £225 x 75% (1/2) (1/2) (1/2)	169	
28 April 2026	Bad debt relief (1) (1/2)	2,280	
			(2,969)
Net VAT payable		(1/2)	1,351

3) **VAT scheme (max 3 marks)**

- Cash accounting would help with bad debt relief (1/2).
- This would become automatic, since VAT would only be due once payment had been received. (1)

- To join the scheme, there must be reasonable grounds for believing that the value of taxable supplies will not exceed £1.35 million in the next 12 months (1/2) and no outstanding VAT or recent VAT offences (1/2). On this basis, Margo may join the cash accounting scheme (1/2).
- No application is required to HMRC. Margo can simply prepare her next return on a cash-accounting basis. (1/2).

4) Discount (3 marks)

Margo's invoice should include

- the terms of the prompt payment discount (1/2)
- the time by which the discounted price must be paid (1/2)
- a statement that the Q UK Ltd can only recover as input tax the VAT actually paid (1/2)
- plus all other details legally required on a normal VAT invoice (1/2)

With the discount, VAT will be $£12,000 \times 20\% \times 95\% = £2,280$. (1)

3.

1) Class 4 NICs (1 mark)

	£
$£(50,270 - 12,570) \times 6\%$ (1/2)	2,262
$£(55,000 - 50,270) \times 2\%$ (1/2)	95
	2,357

2) Treatment of Nora's remuneration (max 6 marks)

Employment Status:

- There is mutuality of obligation (1/2): Smekt Ltd is undertaking to provide regular work and Nora agrees to do this work. (1/2)
- The company controls (1/2) Nora's place of work, requiring her to visit for meetings. (1/2)
- Attendance at employee meetings suggests that Nora is integrated (1/2) into the organisation. (1/2)
- Provision of employer assets (1/2) – here a phone – is an employment indicator. (1/2)

Further indicators of employment include the lack of financial risk for Nora and the fact that she does not profit from sound management, since she is paid a fixed amount (1/2); and the long engagement which has lasted several months already. (1/2)

Expenses:

- Only expenses incurred wholly, exclusively and necessarily' (1/2) in the performance of Nora's duties will be deductible.
- Nora's travel will be ordinary commuting (1/2) therefore not deductible. (1/2)
- Nora's professional-body subscription will still be deductible. (1/2) This is because it is directly relevant to her marketing work for her employer. (1/2)

3) Starter checklist (max 3 marks)

Because he does not have a form P45 (1/2), Smekt Ltd will use the declaration (1/2) in the checklist immediately, before paying him (1/2), to determine the tax code (1/2) to apply to Yusuf's salary.

Yusuf's information in the 'starter checklist' will be reported on the FPS (1/2) when he is first paid (1/2) by Smekt Ltd.

Some information in the checklist, such as Yusuf's address, will be kept on record (1/2) by Smekt Ltd.

4) New Car information (2 marks)

A form P46(Car) (1/2) must be completed and sent to HMRC when Yusuf is first provided with a company car.

The form must be submitted within 28 days (1/2) of the end of the quarter (1/2), here the quarter to 5 July 2026 (1/2). The form can be submitted online or on paper.

5) NICs on new driver's emoluments (7 marks)

Six months 6 October 2026 – 5 April 2027

£

Salary

Class 1

$\text{£}3,200 \times 6 = \text{£}19,200$ (1/2) – $(\text{£}5,000 \times 6/12) = \text{£}16,700$ (1/2) $\times 15\%$ (1/2)

2,505

Mileage payments (1/2)

Class 1

$\text{£}0.05 \times 2,000 \times 6 = 600 \times 15\%$ (1/2) (1/2)

90

Each monthly Class 1 payment (1/2) due with PAYE 22nd of the month (1/2)

Laptop

Class 1A

$\text{£}840 \times 20\% \times 75\% \times 6/12 = 63 \times 15\%$ (1/2) (1/2)

9

Payable by 22 July 2027 (1/2)

Party

Class 1B

$100/80 \times 260 = \text{£}325$ (1/2)

$\text{£}325 \times 15\%$ (1/2)

49

Payable by 22 October 2027 (1/2)

4.

1)

	£	
Income from relevant engagements	100,000	(1/2)
Less 5% deduction	<u>(5,000)</u>	(1/2)
	95,000	
Less allowable expenses (£350 + £3,000)	(3,350)	(1)
Less Employer pension contributions (£125 x 12)	(1,500)	(1/2)
Less Employers NIC on pay (£12,000 - £5,000) x 15%	(1,050)	(1 ½)
Less workers pay	<u>(12,000)</u>	(1)
Gross deemed payment	77,100	
Less Employers NIC included (£77,100 x 15/115)	<u>(10,057)</u>	(1)
Net deemed employment payment	<u>67,043</u>	

Sabrina will need to report both the salary received of £12,000 and the deemed employment payment of £67,043 on her self-assessment return and credit will be given for any PAYE already deducted. (1/2).

For Creation Ltd, the income received from engagements will form part of its profit for corporation tax purposes. (1/2). However, the gross deemed payment is deductible in arriving at taxable profits. (1/2). Sabrina's salary will be reported on Creation Ltd's FPS as non-taxable income. (1/2)

8 marks

2)

	£
Invoice amount	10,980
Less deduction under CIS (£8,900 (1/2) + £200 (1/2) + £330 (1/2)) x 20% (1/2) plus (1/2) for excluding plant from deduction	<u>(1,886)</u>
Amount paid (1/2)	9,094

3 marks

3)

- The construction of a new commercial property is normally subject to VAT at the standard rate of 20%. (1/2)
- Work on the conversion / alteration will qualify for the reduced rate of VAT at 5%. (1/2)
Installation of mobility aids will also qualify for the reduced rate at 5%. (1/2)

- This falls within the definition of a relevant residential building (1/2) so would be zero rated.(1/2)
- Landscaping services will be standard rated and VAT charged at 20%.(1/2)
- Purchase of land is generally exempt from VAT (1/2). The architect fees will be standard rated (1/2)

4 marks

5.

1)

- Living Accommodation

Annual value = £8,000 (1/2)

Additional charge = (£420,000 – £75,000 (1/2)) × 3.75% (1/2)= £12,938. Where accommodation is first made available more than 6 years after purchase, the cost is replaced by the market value.(1/2)

Employer-paid bills = (£2,400 + £1,600) £4,000 (1/2)

Less employee contribution: £2,500 (1/2)

Total benefit = £22,438. This needs to be reduced for non availability. Taraf has only had use for 8 months so pro rate by 8/12 = £14,959 (1/2).

- Vehicles

Van available for 9 months

Annual van benefit = £4,020(1/2)

Fuel benefit = £769 (1/2)

Total = £4,789 x 9/12 (1/2) = £3,592

Car

Appropriate % = 31%: 21% + (125-75)/ 5(1/2)

Car benefit is based on list price and not the cost to the employer (1/2). The capital contribution by Taraf is also capped at £5,000. (1/2)

(£36,000 - £5,000) × 31% = £9,610(1/2)

Fuel benefit = £28,200 x 31% = £8,742(1/2)

Total benefit = £18,352 x 3/12 = £4,588.(1/2)

Use of asset

20% x £6,000 = £1,200 (1/2) x 7/12 (1/2)= £700.

Pool Car

This will not be taxable (1/2) on Taraf as meets all pool car conditions as it is shared, (1/2) kept at workplace (1/2) and not available exclusively to Taraf. (1/2)

Maximum 10 marks

2)

James has 10 qualifying days (1/2) and 3 waiting days.(1/2) He is therefore entitled to 7 days of SSP. He will therefore be paid $\text{£}118.75 / 5 = \text{£}23.75$ (1/2) $\times 7 = \text{£}166.25$.(1/2)

2 marks

3)

After 2 weeks compulsory maternity leave, (1/2) the remaining 50 weeks (1/2) can be converted to Shared Parental Leave.

With two weeks of Statutory Maternity Pay used up, there are 37 weeks of Statutory Shared Parental Pay available. (1/2) It appears that James and his partner meet the eligibility criteria as Niamh has been working for at least 26 weeks out of the 66 weeks (1/2) before the week the baby's due and has earned at least £390 in total across any 13 of the 66 weeks (1/2).

James will be paid Statutory Shared Parental Pay of £187.18 per week. (1/2)

3 marks

6.

1)

a)

The return should have been filed by 30 June 2025. (1/2). Any amendments can be made within 12 months from the filing date so up to 30 June 2026. (1).

As it is late it extends the deadline by which HMRC can commence an enquiry into the return to the end of the quarter following the anniversary of the filing of the return. (1/2) As the return was filed on 14 August 2025 this will be extended to 14 August 2026 (1/2) which is in the quarter ending 31 October 2026 and so HMRC has until this date to open an enquiry. (1/2)

2 marks

b)

A company must keep records that allows it to file and complete and correct return for 6 years from the end of the period. (1/2) Failure to do so will result in a fine of £3,000 per accounting period. (1/2)

1 mark

2)

Stefan is UK resident so he is taxed on income from the UK and overseas work.. (1/2), unless Overseas Workday relief applies. (1/2) Stefan cannot claim Overseas Workday relief (1/2) as he has been resident in the UK for more than 3 consecutive tax years. (1/2).

2 marks

3)

Gift of shares

Market value at the date of gift = $£4 \times 5,000 = £20,000$ (1/2)

An income tax liability arises on the difference between market value and any amount paid. As these are gifted then this is £0 and so Stefan will pay $40\% \times £20,000 = £8,000$. (1/2)

There will also be a capital gain on the difference between sales proceeds and cost and amounts charged to income tax = $(£7 \times 5,000 = £35,000 - £20,000)$ (1/2) $\times 24\%$ (1/2) = £3,600

EMI scheme

There is no income tax on grant (1/2) or exercise if exercise price is not less than market value at date of grant.

Exercise price is £1 so below market value at grant of £4. Income tax on exercise is therefore $(£4 - £1) \times 5,000 = £15,000$. (1/2) $\times 40\% = £6,000$. (1/2)

There will also be a capital gain. Proceeds as above = £35,000.

CGT base cost is

Amount paid for shares = £5,000 (1/2)

Add employment income subject to tax on exercise = £15,000 (1/2)

CGT base cost = £20,000.

The capital gain is therefore £15,000 (£35,000-£20,000) (1/2) x 24% (1/2) = £3,600.

Max 5 marks

4)

In April 2025 and May 2025 there will be no NIC payable by Beatrix as her earnings are less than £12,570. (1/2)

In June NIC will be $(3 \times £5,500 - £12,570)$ (1/2) x 8% (1/2) = £314.

In July NIC will be $(4 \times £5,500 + £10,000)$ (1/2) - £12,570 x 8% (1/2) = £1,554 less £314 already paid = £1,240. (1/2)

3 marks