Candidate Number: [redacted]

Paper 3 Exam – Business Compliance

Question 1:

1)

Employees can contribute to an occupational pension scheme under a net pay arrangement, meaning that the contribution reduces the employee's gross pay for PAYE purposes. The contributions are made net of 20% tax. Higher and additional rate relief is given by extending the basic and higher rate tax bands, meaning more of the individual's income is taxed at basic rate. The maximum gross qualifying contribution that an individual can make in a tax year is the higher of 100% of relevant earnings (employment income being relevant earnings) or £3,600.

Mei must pay any employee and employer contributions into the pension scheme by the 22nd day if paying electronically, or the 19th if paying by cheque, of the following month in which salary deductions were made e.g. for the month of June, payment must be made by the 22nd or 19th of July.

2)

a)

Monthly earnings subject to PAYE & NIC:

4 employees with monthly salary of £3,500 (Gross):

Annual salary each = £3,500 * 12 = £42,000

£3,500 x 3% = £105 a month x 12 = £1,260

b)

Maximum contributions to be made by Wenda in 2025/26

Threshold income = £238,000 - £12,000 = £226,000

Adjusted net income = £226,000 + £30,000 = £256,000

Threshold for adjusted net income is £260,000 for the 2025/26 tax year, therefore Wenda is entitled contribute the maximum amount of £60,000 in the tax year to her pension. She has already contributed £12k + £30k = £42,000 if this, so can contribute an additional £18,000.

Candidate Number: [redacted]

3)

<u>Sale of building materials to a registered customer in France:</u>

This is classed as an export and is therefore treated as Outside of Scope.

<u>Purchase of design services for £12,000 from a company based in the USA:</u>

This is a business-to-business (B2B) service, therefore treated as being supplied in the country in which the recipient belongs, which in this case is the UK. Therefore, Mei will have a reverse charge obligation and will need to add the appropriate output tax to her VAT return and can recover the amount as input tax.

<u>Purchase of surveyor services for £8,000 in relation to a sale of land in Germany from a German VAT-registered company:</u>

Because the purchase relates to services relating to land, there is an exception to the usual B2B rule where the place of supply is where the event takes place, in this case being in Germany. Therefore, the services would be classed as Outside of Scope, and no VAT would be included on the VAT return.

Amounts to be included on VAT Return:

Building Materials: None – Outside of scope.

Design Services:

Input VAT: £12,000 x 20% = £2,400

Output VAT: £12,000 x 20% = £2,400

Surveyor Services: None – Outside of scope

4)

<u>Making Tax Digital:</u>

Because Peng believes his taxable income from the hobby will be over £100,000, this is above the VAT registration threshold of £90,000, therefore he will be required to file Tax Returns under Making Tax Digital for VAT. Peng will need to ensure he keeps digital records of all of his income and expenditure, and will need to file his Tax Returns using MTD compatible software. Peng can use bridging software to ensure that the spreadsheet he is using to keep records is compatible with MTD.

Candidate Number: [redacted]

Question 2:

1)

a)

CG tech can reclaim the VAT on the purchase of the computer equipment as it was purchased within four years before the VAT registration and the equipment has been used solely for business purposes since purchase. To reclaim the VAT, CG Tech much have the VAT invoice from the supplier of the computer equipment.

b)

The usual basic tax point for VAT would be the date on which the services were supplied, unless an earlier overrider occurs. No earlier overrider occurs in this instance, but because CG tech offered a prompt payment discount on the services provided and the customer took the prompt payment discount, the tax point in this instance is determined to be the actual date of payment, being the 20$^{th\ of}$ August 2025. VAT is to be charged on the actual amount paid by the customer. The discount offered was 10% therefore the amount on which VAT is to be charged is £5,000 x 90% = £4,500.

CG Tech must ensure that the invoice states the terms of the discount and that the customer can only reclaim the VAT actually paid. Alternatively, if no statement was included on the VAT invoice, CG Tech can raise a credit note for the 10% discount claimed.

c)

The tax point on the continuous supply of software development services is class as the instance an invoice is issued for the first time, or a payment is made, whichever event happens earliest. CG Tech issued a valid VAT invoice on the 1$^{st\ of}$ September 2025 for the full amount of £12,500, therefore the tax point for the full £12,500 is the 1st of September 2025. This also means that the full £12,500 must be accounted for on the tax return for the quarter ended 31 October 2025.

d)

CG Tech Limited must ensure for VAT purposes that the following items are included on its invoices:

- An invoice number
- The date of supply
- A date of invoice
- Their full company name, address and VAT registration number
- The full name and address of the customer
- The rate of any discount offered to the customer with terms and conditions.
- The total amount of VAT chargeable on the services/goods provided.

Candidate Number: [redacted]

2)

Under the Professional Rules and Practice Guidelines (PRPG), our firm must ensure that they are not acting in a way in which could be classed as in self-interest. This means that the referral must not be made with the referral commission of £500 being the end goal, it must be made because the services provided by the firm of Solicitors is deemed to be practical and beneficial to CG Tech Ltd.

To assist with this, our firm must clearly communicate with CG Tech Ltd that by referring them to the firm of Solicitors, our firm will receive a commission upon acceptance, and provide clear details in writing of the commission being received and how this affects any fee CG Tech Ltd may pay e.g. will the commission received be offset against any fees owed by CG Tech to our firm.

The details of any retainer and commission regarding referrals may be included in any engagement letter with CG Tech if known prior to engagement.

CG Tech Ltd must also confirm that they consent for the referral to take place once they are aware of the terms and conditions of the retainer and commission, and the consent must be documented. Our firm must not accept any referral until this consent is obtained.

Candidate Number: [redacted]

Question 3:

1)

The loans to both Emma and Nick are classed as a beneficial loans, as the rates of the loans are each lower than the official rate of interest set by the Bank of England rate of 3.75% for the 2025/26 Tax Year and both Emma and Nick are classed as Directors of a Close Company.

The amount of Emma's loan exceeded £10,000 in the tax year. Because the official rate of interest was not paid on the loan, there is a benefit for the loan of £20,000 for the period of 7 months in which the loan was outstanding. This benefit is calculated using the difference between the rate paid (0.5%) and the official rate of interest (3.75%):

£20,000 x 3.25% x 7/12 months outstanding = £380 (rounded) to be added to taxable employment income and income tax to be paid on total.

The amount of Nick's loan also exceeded £10,000 in the tax year. No interest was charged at all on the loan, and the loan remained outstanding at the end of the tax year, therefore the loan of £40,000 to Nick is to be calculated for the full year using the full official rate of interest of 3.75%:

£40,000 x 0.0375 = £1,500 to be added to taxable employment income and income tax to be paid on total.

No employee National Insurance contributions are due on the loans to Emma and Nick as it they are classed as beneficial loans, but Conifer Ltd will pay Class 1A NICs at 15% on the benefits of £380 and £1,500 = £282.

There will be no s455 tax due on Emma's loan as this was repaid before the end of the financial year, however as Nick's loan remains outstanding and he has no intention of repaying the loan within 9 months and 1 day of the year-end, Conifer Ltd will pay s455 at the rate of 33.75% on the £40,000 loan that is outstanding:

£40,000 x 33.75% = £13,500

Finally, Conifer Ltd will pay Corporation tax on the 0.5% of interest that Emma was charged on her beneficial loan and the amount of £20,000 x 0.5% x 7/12 = £58 will be recorded as a loan relationship within then CT comp for Confider Ltd.

2)

a)

Ellie will be entitled to Statutory Maternity Leave and Pay from 29th June 2025 as she meets all the criteria to receive SMP and has completed the relevant documentation.

Candidate Number: [redacted]

Statutory Maternity Leave can be given for a max of 52 weeks and SMP can be paid for a max of 39 weeks. The SMP is calculated as 90% of Ellie's average weekly earnings for the first 6 weeks of SMP and the final 33 weeks are calculated at the lower of 90% of Ellie's average weekly earnings or £187.18 a week.

- Ellie's first 6 weeks = 90% x £600 = £540 x 6 weeks = £3,240
- Ellie's next 33 weeks = £187.18 a week x 33 weeks = £6,176.94

The total statutory payment due to Ellie is £9,416.94.

b)

James qualifies for Statutory Sick Pay (SSP) as his earnings are above the lower earnings limit of £125 per week, he did not have any sickness absence in the previous eight weeks, and he notified Conifer Ltd that he was unfit to work via a sick note.

The weekly rate for SSP is £118.75. James is not paid SSP for the first three days of sickness. He will instead receive SSP for 25 days of the 28-day period he is off sick (4 weeks). Assuming James is a full-time employee who works 5 days a week, the amount of SSP due to him would be:

£118.75 / 5 = £23.35 a day x 25 days = £583.78

The total statutory payment due to James is £583.78.

3)

<u>Margaret:</u>

Margaret is a 47-year-old full time employee paid £6,500 monthly. She will pay Class 1 primary NIC on her earnings between the primary threshold and upper earnings limit at 8% and her earnings above the upper earning limit at 2%:

Amount between Primary Threshold and Upper Earnings Limit:

= (£4,189 - £1,048) = £3,141 x 8% = £251.28

Amount above the Upper Earnings Limit:

= £6,500 - £4,189 = £2,311 x 2% = £46.22

Total Class 1 Primary NIC due by Margaret = £297.50.

Conifer will also be due to make Class 1 Secondary NIC contributions on the amount above the secondary threshold at 15%. For Margaret, this will be:

£6,500 - £417 Secondary Threshold = £6,083 x 15% = £912.45.

Candidate Number: [redacted]

<u>Liam:</u>

Liam only earns £1,100 a month. He would not be expected pay contributions up to the primary threshold of £1,048. Therefore, Class 1 Primary contributions would usually be due on his earnings between the primary threshold and upper earnings limit:

£1,100 - £1,048 = £52 x 8% = £4.16.

However, as Liam is under 21 and an Apprentice, he will instead be given an H tax code via payroll, and no Class 1 NIC will be due on Liam.

Conifer Ltd will also not be expected to pay any Class 1 secondary NIC’s as employers are exempt from paying these on earnings up to £4,189 a month for apprentices under 25.

Therefore, the total amount of Class 1 NICs due for Liam is £NIL.

4)

a)

Candidate Number: [redacted]

Question 4:

1)

1st April 2025 – 30th September 2025 (6 months)

1st April 2025 – 30th September 2025 (6 months)	**Total Amount (£)**	**Ann (£)**	**Beck (£)**
Profit attributed to this period = £216,000 x 6/9 = £144,000	144,000.00		
Interest of 5% p.a on Beck's capital contribution of £10,000 = £500 x 6/12 = £250	(250.00)		250.00
Profit ratio 60:40 to Ann and Beck	143,750.00 (143,750.00)	86,250.00	57,500.00
Total profit allocation	-	86,250.00	57,750.00

1st October 2025 – 31st December 2025 (3 months):

1st October 2025 – 31st December 2025 (3 months)		**Ann**	**Beck**
Profit attributed to this period = £216,000 x 3/9 = £72,000	72,000.00		
Salary to Anna of £80,000 annually x 3/12 = £20,000	- 20,000.00	20,000.00	
Interest of 5% p.a on Beck's capital contribution of £10,000 = £500 x 3/12 = £125	- 125.00		125.00
Profit ratio 60:40 to Ann and Beck	51,875.00 - 51,875.00	31,125.00	20,750.00
Total profit allocation	-	51,125.00	20,875.00

Total profit allocation to partners for entire 9-month period:

Ann = £86,250 + £51,125 = £137,375.

Beck = £57,750 + £20,875 = £78,625.

Candidate Number: [redacted]

2)

When a Partnership ceases, the business is classed as ceasing to make taxable supplies. This occurred when Beck left the Partnership on the 31st of December 2025 and Ann continue trading as a Sole Trader. At the point a business ceases to make taxable supplies, it must deregister for VAT.

AB Design Partners will have been expected to deregister for VAT from the 31st of December 2025, making sure they notify HMRC within 30 days, i.e. by 30th January 2026.

The partnership will be required to file a VAT7 form either online or via post to HMRC to let them know date the partnership ceased, the reason they deregistered (cease of Partnership) and the dates of the final VAT return period.

A final VAT return must also be submitted and must include:

- The output VAT to declare on final sales
- The input VAT incurred up to the date of deregistration
- The total VAT on any stock or assets held

It is via this final VAT return that AB Design Partners would be expected to repay HMRC the overclaimed VAT of £21,600.

3)

Class 2 NICs are no longer mandatory for self-employed individuals; therefore, Beck is not expected to pay these. She may wish to make payment to ensure she has a full contribution history regarding her State Pension eligibility. If she were to make these payments, the amount due would be £179.40.

Class 4 NICS are charged at 6% on profits between £12,570 and £50,270 = £37,700 x 6% = £2,262

And at 2% on profits exceeding £50,270 = £78,625 – £50,270 = £28,355 x 2%

= £567.10

Total Class 4 NICs due = £2,262 + £567.10= £2,829.10

Beck will be expected to pay Class 1 Primary NICs on her employment earnings from Textize Ltd for the 2 months she is employed.

£24,000 x 2/12 = £4,000

£1,048 a month for 2 months = £2,096

£4,000 - £2,096 = £1,904 x 8% = £152.32