THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

NOVEMBER 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

A 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, all computations and workings completed in the spreadsheet **MUST** be copied and pasted into the word processor answer box. Any calculations left in the spreadsheet and not copied to the answer box will not be marked.

You **MUST** use keyboard shortcuts to copy from and paste to the answer box. These are CTRL+C (Command+C on a Mac) to copy and CTRL+V (Command + V on a Mac) to paste. Other methods of copying/pasting will not work.

- Markers will NOT be able to view any formulae/workings behind calculations carried out in the spreadsheet. You must set out details of your workings in full.
- Tax tables and the Tolley Manuals / Memory Joggers can be accessed as PDFs via the "open book" icon in the top right of your screen.
- Hyperlinks to Croner and Tolley (Lexis Nexis) student legislation versions, and HMRC manuals, can also be accessed via the "open book" icon in the top right of your screen.

Technical support during the exam: how to access

- You will be able to access technical support during the exam. This is limited to troubleshooting issues with the exam software.
- You can open the support portal by navigating to the 'open book' icon in the top right of the screen. A link to candidate support is provided in the resources list.
- This will open in a separate tab in the secure browser. The 'chat' function is found in the bottom right of that screen. The chat will first attempt to resolve issues by directing you to troubleshooting guidance. If that is unsuccessful, you will be directed to a live agent.

1. Taliax plc is a UK trading company producing robotic table service machines for use in restaurants. Taliax plc has offices in London, France and Germany. It has a year-end of 31 March.

Taliax plc would like advice on the following matters which took place during the year end 31 March 2026.

Charitable donations

Taliax plc operates a payroll deduction scheme. Carlos is paid a gross salary of £2,500 per month and has authorised Taliax plc to deduct £200 per month which is paid over to a UK registered charity.

Carlos also has a 0.5% shareholding in Rex plc with a current market value of £4,200. He wishes to gift the shares to a UK registered charity.

Employee secondment

In January 2026, Taliax plc sent one of its employees, Dexter, to work in its office in Germany for three months. Dexter is paid a salary of £62,000 pa and also received the following payments from Taliax plc during 2025/26:

a. £525 for his return flights.
b. £5,000 for his hotel accommodation.
c. A daily subsistence allowance of £40 per day.
d. £850 (£425 each) for return flights for Dexter's wife and his 20 year old son to visit him whilst in Germany.
e. £750 for hotel accommodation for Dexter's wife and son.
f. £1,500 round sum allowance.
g. Reimbursement of incidental expenses of £1,800 (£20 per night).

Dexter remained on Taliax plc's UK payroll whilst working in Germany.

Share Incentive Plan (SIP)

In March 2022, Taliax plc introduced an HMRC approved SIP. It awarded 100 employees 500 free shares in Taliax plc when the market value of each share was £3.60. Fion is a higher rate taxpayer employed by Taliax plc. In February 2026, Fion withdrew all of the shares she was awarded from the plan when the market value of each share was £6.25.

Taliax plc also allows employees to purchase partnership shares. Eryan is an employee and receives a salary of £30,000 and a bonus of £3,000 during 2025/26. Eryan wishes to purchase the maximum amount of partnership shares possible.

Full Payment Submission error

Taliax plc has recently received an HMRC Helpsheet D request, asking for information on the reimbursement of some employees' private expenses. Taliax plc has reviewed their payroll records following the request for information and has concluded that there has been an under payment of Income Tax and National Insurance Contributions (NIC). Taliax plc believes the error occurred due to a misunderstanding of the rules on taxable benefits for employees. This is the first error that has ever occurred. All previous records sent to HMRC have been correct.

Continued

Requirements:

1. a) State the amounts for Carlos which will be subject to PAYE and NIC each month. You are not required to calculate the amount of PAYE and NIC.

b) Explain how Carlos can obtain tax relief for the gift of the shares in Rex plc to charity.

(2)

2. Calculate the amount of taxable employment income for Dexter for 2025/26. Explain the treatment of each payment by Taliax plc. (6)

3. In respect of the Share Incentive Plan (SIP)

a) Calculate the amount of Income Tax and NIC payable by Fion when she withdraws her shares.

b) Calculate the maximum value of partnership shares that can be purchased by Eryan, and the amount of Eryan's income to which PAYE and NIC will be applied.

(4)

4. Explain the extent of the potential penalties that may be payable by Taliax plc. (4)

Total (16)

2. You are a tax adviser in practice and Pickins Ltd is a client of your firm. Pickins Ltd runs a photography business. It owns 100% of the share capital of Quix Ltd, which provided insurance claims handling services and 75% of the share capital of Rux Ltd, which provides wedding planning services. The remaining 25% of the shares are owned by an unconnected individual.

VAT reporting

Pickins Ltd itself has turnover of approximately £95,000 pa and is interested in simplifying its VAT calculation and reporting obligations. At a recent meeting, the Managing Director of Pickins Ltd has asked you to provide some details on whether Pickins Ltd would be able to join the flat rate VAT scheme. In addition, the board of directors has been discussing the possibility of setting up a VAT group, as they have heard it would be easier than doing VAT returns separately for each company in the Pickins Ltd group.

Employee benefits

Throughout 2025/26, George was employed by Pickins Ltd as a wildlife photographer. George has worked for Pickins Ltd for a number of years. He was paid a salary of £62,000 pa and was provided with the following benefits by Pickins Ltd:

a. On 6 June 2025, a van with a list price of £18,000 and CO_2 emissions of 110g/km. George uses the van for both work and private purposes. Pickins Ltd paid for all the fuel for the van. George made a contribution for fuel of £575 which partly covered the cost of his private journeys.

b. On 6 July 2025, a house to live in, located in a UK national park. Pickins Ltd pays rent of £36,000 pa for the house and it has an annual value of £33,000. Living in the house allows George to better perform his duties as he is closer to the wildlife for 24 hours per day and it has always been customary practice to provide accommodation to wildlife photographers.

c. On 6 December 2025, £150 in shopping vouchers.

d. On 6 January 2026, a home entertainment and media system was transferred to George for £1,000 when its market value was £2,000. Pickins Ltd had provided the system to George since 6 April 2023 when its market value was £5,000.

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Continuation

Rux Ltd

The Managing Director of Rux Ltd has asked your firm to start acting as its tax adviser. The work would involve preparing Rux Ltd's Corporation Tax returns and giving advice on a proposed transaction involving the transfer of a building to Pickins Ltd.

Requirements:

1) Explain the conditions for joining and remaining in the VAT flat rate scheme, and for the operation of the scheme. State one advantage for Pickins Ltd of joining the scheme. (5)

2) Explain the conditions which must be met in order for a VAT group to be formed and the consequences of setting up a VAT group. Recommend which companies Pickins Ltd should include in the VAT group. (4)

3) Calculate the employment income for George in 2025/26, including an explanation of your treatment of each item. (6)

4) Applying the Professional Rules and Practice Guidelines (PRPG), explain the actions your firm should take in relation to Rux Ltd's request to act. (3)

Total (18)

3. Sweepx Ltd is a VAT registered partially exempt business based in London, providing food supplements and healthcare services.

Year ended 31 May 2025

For the VAT year ended 31 May 2025 it had the following VAT exclusive results:

	£
Standard rated supplies	340,000
Zero rated supplies	120,000
Exempt supplies	80,000
Total supplies	540,000

Standard rated supplies includes £15,000 (excluding VAT) for the sale of a machine during the year.

Input VAT incurred during the year is:

	£
Directly attributable to taxable supplies	24,000
Directly attributable to exempt supplies	5,550
Residual	12,220
	41,770

The input VAT recovered over the VAT year was £38,750.

Sweepx Ltd also purchased a car for use by one of its employees during May 2025 for a cost of £17,850 plus VAT. The purchase has not been recorded in the results above.

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Continuation

Quarter ended 31 August 2025

During the quarter to 31 August 2025, Sweepx Ltd had the following transactions:

a. Sale of protein bars to a healthfood chain in Germany.
b. Sale of cake style fibre bars to a business in Canada.
c. Purchase of chocolate snacks from a supplier based in the USA.
d. Purchase of cereal bars from a supplier based in Northern Ireland.
e. Payment of a fee to a firm of Accountants in Barbados for advice on setting up a place of business in Barbados.

All food products would be standard rated if supplied within GB, with the exception of the cake style fibre bars in b. which would be zero-rated.

Tax-free childcare scheme

Sweepx Ltd is considering setting up a tax-free childcare scheme. Two unconnected employees, Arun and Reyaan who are both single parents have already stated that if the scheme goes ahead, they would like to be part of it. They both work full time for the company on a salary of £62,000 each. Their children are aged two and four respectively and live with them permanently. Arun will contribute £5,000 pa into the scheme, and Reyaan will contribute £8,200 pa into the scheme to pay for childcare.

Yiling is a director at Sweepx Ltd and has just returned from maternity leave. She is paid a salary of £120,000 pa and makes personal pension contributions of £8,000 pa. She is also interested in putting £4,000 into the tax-free childcare scheme each year.

Requirements:

1) Calculate the amount of input tax recoverable for the year ended 31 May 2025 and the annual adjustment required using the standard method for partial exemption. Explain how the purchase of the car will be treated for VAT purposes. (7)

2) Explain the VAT implications of each of the transactions during the quarter ended 31 August 2025. (5)

3) Calculate the amounts which will be put into Arun, Reyaan's and Yiling's tax-free childcare accounts for 2025/26. (3)

Total (15)

4. You are a tax assistant working in practice. Baz and Maeve, who began to trade in partnership in January 2026 as BM Partners, are clients of your firm. Baz is 62 and Maeve is 69.

Remuneration

BM Partners has one employee, Donny, 19, who began his job on 6 July 2026. This is Donny's first job and he has no other income. Since his employment began, he has received a salary of £20,000 pa. On 6 July 2026 Donny was supplied with a tablet which cost the partnership £750, which is used 50% for his work. Donny also received vouchers costing £200 to spend on holiday in August 2026. The partnership agreed to meet the tax on the vouchers via a PAYE Settlement Agreement.

The partners will prepare accounts to 5 April each year. Baz and Maeve estimate that the tax-adjusted trade profit for BM Partners for 2026/27 will be £104,000. Each of the partners receives a salary of £15,000 pa and residual profits are then shared between Baz and Maeve 3:2 respectively. In recent years, both Baz and Maeve have also received investment income exceeding £51,000 pa.

Continued

Continuation

Future plans

The partners intend to continue their trade until at least 2032. They plan to engage up to 10 further employees from 2027/28 onwards, and to incorporate the business by 2030. Their projections show turnover rising to £12,000,000 by 2032.

Off-payroll question

BM Partners use several consultants. Some are sole traders and others operate through limited companies. Baz and Maeve have heard of the off-payroll working rules. They ask whether the partnership must issue status determination statements to these consultants.

Rabia

Rabia is a self-employed communications specialist. She works for a large number of businesses, usually on projects lasting a few days or weeks. BM Partners have agreed in writing with Rabia that she will work for them for six months from January 2027. During this time, Rabia will be available two days each week, reporting to Maeve at the partnership's office. She will be paid a daily rate for her work. The written agreement allows Rabia to send someone in her place if she is unavailable, however Maeve has indicated that because of Rabia's particular qualifications and experience, the partnership would not accept a substitute. All Rabia's costs of tram journeys to and from the office will be fully reimbursed by the partnership.

Requirements:

1) Calculate the National Insurance Contributions arising for 2026/27 for the partnership on Donny's income and benefits, and for Baz and Maeve on their estimated partnership profits. Explain when each relevant class of NICs will be payable. Assume that employment and partnership terms remain unchanged and that 2026/27 NIC rates are the same as those for 2025/26. Ignore the employment allowance. (11)

2) In respect of off-payroll working, explain why there is no need for BM Partners to issue status determination statements to consultants, and whether status determination statements are likely to be needed in future. (3)

3) Explain, from the information given, whether Rabia should be treated as self-employed or as an employee. Based on your conclusion, explain how Rabia's travel costs and reimbursement of these will be treated for Income Tax purposes.
Do not consider VAT. (5)

Total (19)

5. Mungis Ltd is a catering company based in the UK which employs more than 500 people.

Mungis Ltd pays total wages of £1,450,000 every month. In the month ended 5 September 2025, employee bonuses were paid totalling £172,000, the only bonuses paid in 2025. Apprenticeship Levy paid electronically to HMRC for the four months to 5 August 2025 was £24,000.

Dilip, who is aged 28, is an apprentice who has been employed full time by Mungis Ltd since 6 April 2025. Dilip has part of a Plan 2 student loan still outstanding. Dilip's salary and benefits for 2025/26 were as follows:

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	Cost to Mungis Ltd £	Received by Dilip £
Salary £2,460 per month		29,520
Bonus 31 August 2025		200
Training course for apprentices October 2025	2,960	
Medical insurance (after 10% discount available to Mungis Ltd)	180	
Use of a mobile phone (50% personal use by Dilip)		390
A free ticket to an event catered by Mungis Ltd. Tickets were sold to the public for £125 each, but the extra cost to Mingus Ltd for Dilip's meal was only £35.	35	
An interest-free loan of £16,000 was made to Dilip on 1 January 2025. Dilip repaid £5,000 on 30 June 2025.	11,000	

Dilip has no other income.

Requirements:

1) Calculate the total amounts payable to HMRC in respect of Dilip's income and benefits for 2025/26, showing any exemptions which apply. Ignore the employment allowance. (11)

2) Calculate the Apprenticeship Levy payable by Mungis Ltd for the month ended 5 September 2025 and state when this is due to be paid to HMRC. (3)

3) Explain what happens to the Apprenticeship Levy paid, and how this may be used by Mungis Ltd in future. (3)

Total (17)

6. Zatvo Ltd is a small close company which traded from 1 January 2010 until 31 October 2026, preparing accounts to 31 December each year prior to the final accounting period.

Zatvo Ltd made a loan of £20,000 to Jana, a director, in November 2024. Jana, who is a higher rate taxpayer, repaid £12,000 of the loan in September 2025 and the remaining £8,000 in September 2026.

Zatvo Ltd was late making two PAYE payments during 2026 as follows. All PAYE in previous years was paid on time.

Amount £	Due date	Date paid
1,400	22 February 2026	22 May 2026
1,920	22 March 2026	22 October 2026

Zatvo Ltd had one employee, Neville, who was made redundant because the trade was ceasing. Neville worked his full contractual notice period. On 30 October 2026, his last day of employment, he was paid his final salary, a non-contractual termination payment of £35,000 and a statutory redundancy payment of £6,500. He was then provided with a form P45. Neville was also allowed to keep the company car he had been using since 6 April 2025, in return for a contribution of £5,800. The list price of the car was £19,000 and the market value on 31 October 2026 was £9,800. Neville is a higher rate taxpayer.

Zatvo Ltd will be wound up during 2027.

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Requirements:

1) Calculate the s.455 tax refunded to Zatvo Ltd and explain how and when HMRC will make the refund. (3)

2) Explain, with a calculation, the interest and any penalties due from Zatvo Ltd on late payments of PAYE during 2026. (3)

3) Explain, with a calculation, Neville's liability to Income Tax on the termination package. Explain to what extent PAYE will apply to collect the Income Tax due. (5)

4) Explain the Corporation Tax consequences of Zatvo Ltd ceasing to trade on 31 October 2026. (2)

Total (13)