

1. **Briefly explain how relief for bad debts operates for VAT purposes and state the conditions which must be met in order for a VAT registered trader to claim bad debt relief.** (3)

2. **Explain what is meant by “Transfer of Going Concern” for VAT purposes and state four conditions which must be met in order to qualify for this treatment.** (3)

3. Peter is an engineer and operates through a personal service company, PE Ltd. During 2016/17, PE Ltd received £60,000 from relevant engagements. It paid £1,000 in travelling expenses in respect of Peter’s travel between different workplaces. PE Ltd also paid £500 for professional indemnity insurance and £5,000 into a pension for Peter.

Calculate the net deemed employment payment and explain how and when it is reported to HM Revenue & Customs. (4)

4. Sophia had started University in September 2011 and had received a Plan 1 student loan.

Inferno Ltd recruited Sophia onto its graduate training scheme on 1 September 2016. Sophia’s student loan deductions also commenced in September 2016. Sophia’s starting salary at Inferno Ltd was £20,000 per annum. She received a pay rise of £2,000 per annum with effect from 1 March 2017. Sophia is paid monthly on the last working day of each month.

Calculate the student loan deductions which Inferno Ltd should make from Sophia’s earnings during 2016/17. (2)

5. Goat Ltd is a partially exempt trader. During the quarter ended 31 March 2017 it made taxable supplies of £72,000 and exempt supplies of £33,200. Its total input tax for the quarter was £6,000. £4,300 was attributable to taxable supplies and £775 was attributable to exempt supplies. The remaining £925 was unattributable.

Calculate the amount of input tax recoverable for the quarter using the standard method of recovery. (4)

6. Happy Ltd has agreed an annual PAYE Settlement Agreement with HM Revenue & Customs for staff entertaining and incentives. Happy Ltd has 40 employees, all of whom are higher rate taxpayers. The following items were provided to employees during the 2016/17 tax year:

(a) Staff summer barbecue: All staff and 60 partners/family members were invited to this event. The total cost of the event was £9,000.

(b) Staff Christmas party: All staff were invited to this annual event. The total cost of the event was £5,000.

(c) A hamper worth £30 was issued to all employees on the anniversary of the company’s formation as a gesture of goodwill.

1) **Calculate the amounts of Income Tax and National Insurance payable under Happy Ltd’s PAYE Settlement Agreement.** (3)

2) **State which category of National Insurance Contributions is payable and the due date for payment.** (1)

7. Brick Ltd, a large contractor within the Construction Industry Scheme, received the following invoice from a subcontractor who is registered for payment under deduction. The invoice was paid on 15 May 2017.

	£
Labour	10,000
Materials	3,000
Equipment hire	1,000
Total	<u>£14,000</u>

- 1) **Calculate, with explanations, the amount of Construction Industry Scheme deduction which Brick Ltd should make from the payment to the subcontractor.** (2)
 - 2) **Briefly explain how and by when Brick Ltd should report the payment to HM Revenue & Customs and remit the deductions made.** (2)
8. Retailers may account for VAT using a number of different schemes.

Explain how the point of sale scheme and the apportionment scheme operate for traders who supply both standard rated and reduced rate goods. (4)

9. Molly is a member of her employer's occupational defined contribution pension scheme. She contributes 5% of her salary of £50,000. Her employer pays an employer contribution of 10% directly into her pension scheme.

Calculate, and briefly explain, the amount of Molly's earnings which will be subject to Income Tax and National Insurance Contributions after taking account of these pension contributions. (2)

10. **State the end of year reports employers are required to produce in respect of the salaries paid to their employees, including their due dates and to whom they are provided.** (3)

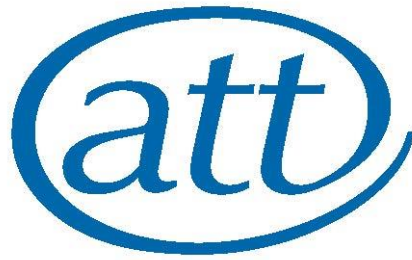
11. Scott had a potential legal claim against his employer due to discrimination in the workplace. To avoid a protracted legal dispute, Scott and his employer are entering into a settlement agreement to end his employment. His employer will make the following payments to Scott:

	£
Payment in lieu of Scott's six month contractual notice period.	30,000
Compensation for loss of office.	40,000
Legal fees paid directly to Scott's solicitor relating to the termination of his employment.	2,000
Payment directly into Scott's approved company pension scheme. Scott has only contributed £1,000 to date in the current tax year.	5,000

Calculate, with brief explanations, the amounts which will be subject to Income Tax and National Insurance Contributions. (4)

12. Ida is a director of Floral Ltd. In 2016/17, she was paid £40,000 in 12 equal monthly instalments. She also received a bonus of £10,000 in December 2016.

Calculate the primary and secondary National Insurance Contributions payable in respect of Ida's remuneration for 2016/17. (3)



November 2017 Examination

PAPER 3 PART II

Business Compliance

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time you may read and annotate your Part II question paper. You may also read the legislation.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over. Calculators may not be used during reading time.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part II

Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Pecan Ltd is a client of the firm where you work as a tax adviser. Pecan Ltd supplies adults' clothing to customers across the UK and overseas.

The company's in-house accountant has recently left and the managing director of Pecan Ltd has sent you the following letter:

Pecan Ltd
Almond Road Industrial Estate
London
EC11 4BH

Dear Tax Adviser,

I would like your assistance with several matters which I have outlined below:

Potential new clients for your firm

One of our suppliers, Walnut Ltd, is looking for a firm of tax advisers to act for them. I recommended your firm very highly and would like to introduce you. If Walnut Ltd was to appoint you, I would like to be rewarded with a commission as I have generated new work for you. I know you are bound by professional and practice guidelines but wondered if this would be acceptable?

VAT accounting

During the quarter ended 31 December 2016, Pecan Ltd had the following trading results:

	£
Standard rated sales, all made for cash	147,000
Standard rated purchases, all made by cash	91,440

All figures are inclusive of VAT. We are not sure how to account for these figures.

VAT time of supply

We are confused over when VAT actually becomes due on the goods we supply. We have been told that the basic tax point and actual tax point may differ but do not understand what this means. In particular we need help in understanding when VAT is due on the following transactions:

- (a) Goods were made available to a customer on 16 March. The invoice to the customer was issued on 26 March and we received payment on 1 April.
- (b) Goods were made available to a customer on 8 March. The invoice was issued to the customer on 26 March. A deposit in respect of the goods had been received on 1 March, with the balance being received on 1 April.

Continued

1. *Continuation*

Overseas transactions

During the quarter ended 31 March 2017, we made the following sales and purchases:

- (a) A sale of ladies' dresses to a VAT registered trader in France, an EU country.
- (b) A sale of men's shoes to an individual in South Africa, a non EU country.
- (c) A sale of ladies' sunglasses to an individual in Spain, an EU country.
- (d) Purchase of an online accounting package from Italy, an EU country, for use in Pecan Ltd's business.

We need to understand how these transactions should be treated for VAT.

If you can give me some advice on these matters, it would be very much appreciated.

Managing Director

Pecan Ltd

You are required to write a letter to the managing director of Pecan Ltd which includes the following:

- 1) An explanation of whether it is acceptable to take the commission and obtain new clients in the manner being suggested, considering the Association of Taxation Technicians' Professional Rules and Practice Guidelines. (3)**
- 2) The accounting entries required to record the sales and purchases transactions for the quarter ended 31 December 2016. (3)**
- 3) An explanation of the rules for determining the tax point for supplies of goods and the relevant tax points for the two transactions carried out during the quarter ended 31 March 2017. (5)**
- 4) An explanation of how each of the overseas transactions will be treated for VAT purposes. (5)**

Total (16)

2. Super Systems Ltd is a new start-up company. They require advice on various tax matters and have appointed your firm as tax advisers. Their queries, which have been sent to your firm, are summarised below:

VAT registration and compliance

We will be supplying computer parts, components, laptops and tablet devices to the general public and also to other VAT registered businesses. We estimate that the monthly turnover from these supplies will be around £10,000. We are unsure of whether we need to add VAT to the sales we make and would like to understand if we need to register for VAT at all. If we do, then we will need an explanation of what our compliance obligations are in terms of dealing with HM Revenue & Customs.

Payroll queries

Please can you explain when we need to submit our payroll reports to HM Revenue & Customs, and when we need to pay any tax? We expect to pay at least £2,000 of Income Tax and National Insurance Contributions per month.

As cashflow is tight, one of our employees has agreed that we can pay him half of his full contractual salary each month, and catch up in future. Is there anything we need to consider from a payroll reporting perspective?

Childcare vouchers

We are considering providing childcare vouchers to one of our employees. We believe we need to carry out an assessment of the amount of vouchers we can provide to him free of Income Tax.

Please could you explain when we need to carry out this assessment and calculate the total amount of vouchers we can provide to him per week free of Income Tax? The employee's salary is £41,000, his contractual benefits will have a value of £2,500 and he is a member of the payroll giving scheme contributing £1,000 per annum.

Provision of company car

We are keen to recruit a sales director from an established competitor. In order to persuade the sales director to work for us we have put together a very generous remuneration package. This includes an annual salary of £70,000 and provision of a company car from 6 October 2016 with a list price of £19,500 and CO₂ emissions of 145g/km. We will only need to pay the car dealership £17,500 to acquire the car. We will also pay for all the sales director's petrol.

The sales director wants to take up our employment offer, but we both want to understand the increased tax liability which being provided with a car may generate. Could you calculate the amount of Income Tax payable by the director on the benefit for 2016/17 and any resulting National Insurance liability for us as the employer, as this will form an important part of the negotiations?

Appointment of director

As this is the first time we will be appointing a new director since setting up the company, we would like your advice on the obligations we have under the Companies Act 2006 in terms of the appointment. The director will be appointed as an office holder. Do we have to follow certain procedures to be able to make this appointment?

Continued

2. *Continuation*

Share scheme

We have heard that the Enterprise Management Incentives scheme can be very tax-efficient for small companies planning fast growth. Please could you explain the Income Tax consequences of the following events, including how any Income Tax would be calculated and paid:

- (a) Granting options under the scheme.
- (b) Exercising options after a 10 year holding period.
- (c) Exercising options after a two year holding period, where the options were granted at a discount.

You are required to respond to your client's queries. Marks will be awarded as follows:

- 1) **VAT registration and compliance** (3)
- 2) **Payroll queries** (3)
- 3) **Childcare vouchers** (4)
- 4) **Company car** (4)
- 5) **Appointment of director** (2)
- 6) **Share scheme** (4)

Total (20)

3. One of your audit colleagues has recently met a new client, Shiny Ltd. She has taken some notes regarding taxation matters to help you prepare for a tax meeting with Shiny Ltd next week:

Benefits in kind

The only benefit in kind offered to employees is private medical insurance. The private medical insurance premium is £600 and the payment of the premium is aligned to the tax year. The previous finance director applied to HM Revenue & Customs to payroll benefits in kind for the following tax year. Employees are paid monthly.

The new finance director would like to understand:

- (a) How the finance staff should calculate the amount of private medical benefit which should be processed through the payroll each month.
- (b) What reports need to be made to HM Revenue & Customs and employees in respect of the payrolled benefit in kind, and by when.
- (c) What National Insurance Contributions are payable in respect of the benefit and by when.

Travel expenses

The company has a large number of sales staff travelling frequently, particularly in London. It is difficult for them to keep all their receipts for food and drink when travelling. The benchmark scale rates allowed by HM Revenue & Customs are too low compared to the costs being incurred.

The finance director has heard that it is possible to apply for a bespoke agreement to pay flat rate subsistence costs to mobile employees. She would like you to outline:

- (a) The evidence HM Revenue & Customs require in order to agree a bespoke subsistence rate.
- (b) Whether any new systems will need to be introduced to support the bespoke rates being paid.

Compliance obligations

Shiny Ltd's 2015/16 form P11D(b) and the associated payment due was submitted to HM Revenue & Customs on 1 February 2017. 80 employees had benefits reported on the form P11D(b). The finance director would like you to:

- (a) Calculate, with brief explanations, the late filing penalty which will be levied by HM Revenue & Customs
- (b) Explain how the late payment penalty will be calculated

You are required to write notes to prepare for your meeting, answering all of the finance director's questions. Marks will be awarded as follows:

- 1) **Benefits in kind** (4)
- 2) **Travel expenses** (2)
- 3) **Compliance obligations** (4)

Total (10)

4. We R Global is an international business with offices in the UK and in Middle Way, which is part of the European Economic Area. We R Global has raised queries in respect of two of its employees, Giovanni and Ben. In addition, your firm needs to consider the implications of Sarah, who is currently a client of the firm, moving permanently to Middle Way.

Giovanni

Giovanni is employed in We R Global's Middle Way office and is a resident within the European Economic Area. He is currently paid in Middle Way. He will begin a full time secondment to the UK in August 2017 and will be paid from the UK for this secondment. It is currently planned that his secondment will last for five months, but it may be extended to April 2018.

We R Global would like to understand:

- (a) Whether or not Giovanni will be entitled to the UK personal allowance.
- (b) The UK taxation implications of Giovanni's income, depending on whether he is UK tax resident or not during 2017/18.
- (c) Whether the length of Giovanni's secondment could affect his UK tax residence position for 2017/18.

Ben

Ben is a UK national and is employed by We R Global in the UK. He has agreed a five month full time secondment to We R Global's Middle Way offices, starting in May 2017. He will not return to the UK during this period. He will continue to be paid from the UK company. We R Global will contract for and meet directly all of the following costs as part of his secondment package:

- (a) Initial flight to Middle Way, and return flight at the end of the secondment.
- (b) Two return journeys for Ben's spouse and three children aged 15, 17 and 21.
- (c) Language lessons.

In addition, Ben will book a hotel for his spouse and children when they visit. It has been agreed that he will submit an expense claim for these costs which will be paid to him via the payroll.

We R Global would like you to explain the UK Income Tax and National Insurance Contributions consequences of Ben's secondment package.

Sarah

Your firm used to prepare Sarah's UK Self-Assessment return. She is moving to We R Global's Middle Way office permanently and, as a consequence, a local Middle Way tax adviser will prepare her returns in future. Your firm has been asked to provide the relevant papers relating to Sarah's tax affairs to the new tax adviser and your manager has asked you to explain the key points that should be considered before handing over the papers to a successor.

You are required to respond to the above questions. Marks will be awarded as follows:

- 1) **Giovanni** (5)
 - 2) **Ben** (5)
 - 3) **Sarah** (4)
- Total (14)

