



Practical Tax People

Association of
Taxation Technicians

May 2017 Examination

PAPER 3

Business Compliance

Part I Suggested Answers

1.

Two or more companies can register as a group if:

- One of them controls the other(s) or all companies are controlled by the same person, company or partnership **(1/2 mark)**
- Each has a fixed place of business in the UK. **(1/2 mark)**

The effect is that one company is appointed as the representative member **(1/2 mark)** and the group is treated as one taxable person for VAT purposes. **(1/2 mark)**

2 marks total

2.

Penalties are calculated on the potential lost revenue. **(1/2 mark)**

The PLR as a result of the error is £40,000 x 20% = £8,000 **(1/2 mark)**

Ella's error is likely to be classed as careless **(1/2 mark)**

The maximum penalty is therefore £8,000 x 30% = £2,400 **(1/2 mark)**

2 marks total

3.

- The sale of a new commercial building is standard rated for VAT **(1/2 mark)**
- The sale of a commercial building over 3 years old is exempt **(1/2 mark)** (unless the seller has elected to waive exemption).
- The sale of a new residential property is zero rated for VAT. **(1/2 mark)**
- The construction of a building to be used for a relevant charitable purpose is zero rated for VAT. **(1/2 mark)**

2 marks total

4.

March 2017 Class 1 Primary NIC:

£45,000/12 = £3,750 per month

- Earnings between £672 and £3,583 at 12% = £349 **(1/2 mark)**
- Earnings between £3,583 and £3,750 at 2% = £3 **(1/2 mark)**
- Total NIC payable by Emma: £352

The amount of NIC underpayment that can be recovered from Emma in March 2017 is restricted to the amount of NIC payable for that month, i.e. £352. **(1 mark)**

As the full amount of the underpayment could not be recovered from Emma in March 2017 and the error was made in good faith, additional deductions can be made from Emma in the 2017/18 tax year to recover the full underpayment. **(1 mark)**

3 marks total

5.

Whoops Ltd should pay the underpayment of NIC to HMRC as soon as possible. **(1 mark)**

As the error has been discovered within the tax year, the error can be corrected as follows:

- The error can be corrected by using the revised year to date figures on the next Full Payment Submission **(1 mark)**, or
- The adjustment can be shown by submitting an additional Full Payment Submission for Emma for the pay period the error relates to. **(1 mark)**

3 marks total

6.

The first late payment of tax does not count as a default. **(1/2 mark)**

The 1st, 2nd and 3rd defaults (i.e. May – July) **(1/2 mark)** will attract a penalty of 1% of the default amount **(1/2 mark)** = £900 **(1/2 mark)**.

The 4th default (i.e. August) **(1/2 mark)** will attract a penalty of 2% of the default amount **(1/2 mark)** i.e. £600 **(1/2 mark)**

As the payment for the April salaries is more than 6 months late **(1/2 mark)** a penalty of 5% of the outstanding amount can be levied i.e. £1,500 **(1/2 mark)**.

4 marks maximum

7.

Annie's earnings for duties performed in the UK will be taxed on the arising basis. **(1/2 mark)**.

Annie's earnings during the time she is on secondment in Qatar will be taxed on the arising basis and subject to UK tax if she is still employed by Rossdale Ltd. **(1 mark)**. Overseas workday relief will not apply as Annie has been UK resident for the past three tax years. **(1/2 mark)**

However, if she is employed by the subsidiary, the remittance basis can apply **(1/2 mark)** if the overseas earnings are "chargeable overseas earnings" **(1/2 mark)**. These are earnings from a foreign employer **(1/2 mark)** where the duties are performed wholly outside the UK. **(1/2 mark)**

3 marks maximum

8.

	Benefit
Loan: £11,000 + £16,000/2 (1/2 mark) x 3% (1/2 mark) x 9/12 (1/2 mark)	£304
Company car: £25,000 (1/2 mark) - £5,000 capital contribution (restricted) (1 mark) x (17% + 3% diesel supplement) (1 mark)	£4,000
(17% calculated by 16% baseline for emissions of 95 g/km, plus an additional 1% for every whole 5g/km above 95 g/km)	
Total	<u>£4,304</u>

4 marks total

9.

Chris can purchase £1,500 worth of partnership shares (1/2 mark) in 2016/17 as the amount of shares purchased cannot exceed 10% of salary. (1/2 mark)

The purchase price will be deducted from Chris's salary before income tax is deducted under PAYE (1/2 mark). This means that Chris will receive tax relief at source (1/2 mark).

2 marks total

10.

Personal allowance	£11,000 (1/2 mark)
Less benefits in kind	(£7,350) (1 mark)
Less tax underpayment: £2,000 x 100/40	<u>(£5,000)</u> (1 mark)
Negative allowance:	<u>(£1,350)</u>

PAYE code: K134
Remove final 0 to get 135 (1/2 mark),
deduct one to get 134, (1/2 mark),
put K in front (1/2 mark)

4 marks total

11.

Dr Cash	£26,250	(1/2 mark)
Cr Sales	£25,000	(1/2 mark)
Cr VAT control	£ 1,250	(1/2 mark)

Dr Purchases	£15,000	(1/2 mark)
Dr VAT control	£ 750	(1/2 mark)
Cr Cash	£ 15,750	(1/2 mark)

VAT due to HMRC = Output VAT £1,250 less Input VAT £750 = £500 (1 mark)

4 marks total

12.

Small retailers who cannot afford a till which operates the point of sale system cannot keep track of every sale made individually if those sales have different VAT liabilities **(1 mark)**.

VAT retail schemes can make calculating VAT simpler because, instead of calculating the VAT for each sale made, it is only done once with each VAT return. **(1 mark)**.

Retailers use a method to estimate the amount of their gross takings which is attributable to each VAT liability **(1 mark)**.

2 marks maximum

13.

Contributions payable by Olive:

- Earnings between £8,060 - £43,000 at 5.85% = £2,044 **(1 mark)**
- Earnings between £43,000 - £50,000 at 2% = £140 **(1 mark)**
- Total = £2,184

Contributions payable by Olive's employer:

- Earnings between £8,112 and £50,000 at 13.8% = £5,781 **(1 mark)**

3 marks total

14.

The B2B supplies are subject to VAT based on the location of the customer. **(1/2 mark)** The place of supply of services is therefore Spain. **(1/2 mark)** Nicole will not add UK VAT to her fees and Gayle must account for VAT on her own return at the Spanish rate of VAT. **(1/2 mark)** She can then reclaim VAT as input VAT under the reverse charge procedure. **(1/2 mark)**

2 marks total