

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 3 BUSINESS COMPLIANCE

**May 2021**

---

TIME ALLOWED

3 HOURS 30 MINUTES

---

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

## PART I

1. Peter is a VAT registered trader. He invoices his customers once a sale is made and allows them one month to pay. Recently a customer, Laura, has not paid her outstanding invoice for £300 plus standard rated VAT. The invoice was dated 30 June 2020 and she had 30 days to pay. On 31 March 2021 Peter had only received cash of £120 in relation to the invoice. Peter does not use the cash accounting scheme.

**Explain the rules for the timing of Peter's bad debt relief claim for VAT and identify the amount that can be recovered.** (3)

2. Dominic owns 100% of the shares in both Alpha Ltd and Beta Ltd, earning dividends from both companies. Dominic has no other income.

**Explain the effect and advantages of VAT group registration, and whether a VAT group can be formed between Dominic, Alpha Ltd and/or Beta Ltd.** (4)

3. Cleo Ltd is a partially exempt trader and has the following results for the VAT year ended 31 March 2021:

<u>Outputs</u>	£
Standard rated taxable supplies (VAT exclusive)	1,250,000
Exempt supplies	<u>372,000</u>
Total supplies	<u>£1,622,000</u>
<u>Input tax</u>	
Wholly attributable to taxable supplies	7,200
Wholly attributable to exempt supplies	2,845
Non-attributable	<u>22,500</u>
	<u>£32,545</u>

The input VAT recovered over the VAT year was £26,850.

**Calculate the input VAT payable/repayable for the year ended 31 March 2021 under the standard method for partial exemption, and calculate the annual adjustment required.** (4)

4. Adam is employed by Dipsy Ltd and is a higher rate taxpayer. During 2020/21 he received vouchers worth £150 as a gift from his employer on passing his exams and a clock worth £120 on the occasion of his marriage. Both gifts are subject to a PAYE settlement agreement.

**Calculate the Class 1B National Insurance contributions payable by Dipsy Ltd on these gifts.** (2)

5. Ashley is the sole shareholder and director of Patrick Ltd, an intermediary company. During 2020/21, Barrow plc contracted with Patrick Ltd for Ashley's services for a fee of £60,000. If Patrick Ltd did not exist, Ashley would be an employee of Barrow plc.

During 2020/21, Patrick Ltd paid Ashley a salary of £12,000. Ashley is not part of the Patrick Ltd pension scheme and did not have any employment related expenses.

**Calculate the net deemed salary payment for 2020/21, and explain how the income from Barrow plc and the deemed salary payment, will be treated in the Corporation Tax computation of Patrick Ltd.** (4)

6. Jenna has been employed for a number of years by Bannister Ltd and was expecting a baby on 20 September 2020. She gave the relevant notice to Bannister Ltd and completed the MAT B1 paperwork. She was paid weekly and up until 1 June 2020 she earned £177 per week.

**Explain the conditions that had to be met in order for Jenna to be eligible for statutory maternity pay and the amounts of SMP payable to her.** (3)

7. Archie receives an annual salary of £200,000 from Chestnut plc. In March 2017, Chestnut plc granted Archie an option over 10,000 ordinary shares, under a non-tax advantaged scheme. Archie exercised the option in full in March 2021.

	<u>£ per share</u>
Market value on grant	2
Market value on exercise	5
Exercise price	1

**Calculate Archie's Income Tax payable due to the grant and exercise of the option.** (2)

8. Bogdan is domiciled in Romania. On 1 May 2020 Bogdan arrived in the UK for the first time, starting a job in London for a UK company. He was resident in the UK in 2020/21.

Bogdan's employment contract required him to work in Romania during September and October 2020, but otherwise in London. His salary for the months worked in Romania was paid into a Romanian bank account. The remainder of his salary was paid into his UK bank account.

**Explain the bases on which Bogdan's salary may be charged to Income Tax in 2020/21.** (4)

9. Candice and Daisy trade together in partnership and submit all tax returns online. Candice submitted the partnership tax return for 2018/19 on 21 March 2020. The partners submitted their individual tax returns on the same date.

HMRC gave notice of an enquiry into the partnership tax return on 15 April 2021. Candice has complained that 2018/19 is too long ago for HMRC to ask about.

**Briefly explain the late filing penalties payable and why the enquiry notice is valid in terms of date of issue.** (2)

10. Gilburr Ltd is a UK resident company. Its ordinary shares are owned equally by 10 shareholders.

Shareholders Ann, Bill and Claire are all directors of the company. The other seven shareholders do not work for the company.

Shareholders David and Edward are cousins. None of the other shareholders is related to each other.

**Briefly explain whether Gilburr Ltd is a close company.** (4)

11. Sam is employed by Pilcrowe Ltd. He is based at home, visiting clients around the UK. In 2020/21, Sam received a £12,000 round sum allowance from Pilcrowe Ltd, to cover expenses incurred for his work.

Sam had the following expenses in 2020/21:

	£
Lunches with potential clients	4,500
Tickets for football matches with trade contacts	3,000
Train travel from home to clients' offices	2,800
Train travel for quarterly meetings at Pilcrowe Ltd's head office	400
Wi-Fi charges when working away from home	300

**Calculate the amount of the round sum allowance that is chargeable to Income Tax.** (3)

12. Nith Ltd makes monthly payments to HMRC of PAYE and National Insurance Contributions (NIC) of £13,000.

During 2020/21, Nith Ltd made these payments two weeks late in each of four months. A fifth late payment was made seven months late.

**Calculate Nith Ltd's late payment penalties for 2020/21.** (3)

13. Ralf's employer pays an amount equal to 3% of Ralf's salary into the company's occupational pension scheme for Ralf. Ralf pays 5% of his salary into the scheme.

**Explain the PAYE and National Insurance Contribution implications of the pension contributions.** (2)

## PART II

14. You are a tax adviser in practice. You are currently working on two clients:

### Harvey Lowe

Harvey started trading on 1 May 2020 and did not voluntarily register for VAT. His monthly turnover excluding VAT is:

	£
Standard rated supplies	9,000
Zero rated supplies	1,900
Exempt supplies	550

Harvey initially forgot to register for VAT, but did so on 1 April 2021. Harvey's recoverable input tax is approximately £500 each month.

### Sardur Rahman

Sardur Rahman, a client of your firm, has sent you the following email asking for advice.

To: Tax Adviser

From: Sardur Rahman

Re: Advice

As you are aware, my business makes both standard and zero rated supplies. A friend of mine has told me that there are various retail schemes available to make the way I account for VAT much easier. I have done a little research and have come across the "Apportionment Schemes". I would like to know some more about Scheme 2 and whether I would be eligible to join.

In the quarter ended 31 March 2021, my business records show the following (all amounts are shown inclusive of VAT):

<u>Purchases</u>	£
Standard rated goods	800,000
	(Estimated selling price of £1,152,000)
Zero rated goods	620,000
	(Estimated selling price of £713,000)
<u>Sales</u>	2,650,000

The sales figure includes £400,000 relating to the sale of zero rated goods.

The estimated selling price (including VAT) of all goods purchased in the year to 31 March 2021 was:

	£
Standard rate goods	6,250,000
Zero rated goods	1,500,000

In addition, I would like to understand how any purchases and sales my business makes are recorded for VAT purposes.

At 1 January 2021, the VAT control account showed a VAT creditor of £28,600. This liability was paid on 7 February 2021.

*Continuation*

Would it be possible for you to update the VAT control account for transactions in the quarter ended 31 March 2021? i.e. prior to me joining any special retail scheme.

**Requirements:**

1)

- (a) Explain when Harvey was compulsorily required to register for VAT and the time limit for registration. (3)
- (b) Calculate the maximum late registration penalty payable by Harvey, and explain why this may be reduced. (2)
- (c) State the records Harvey is required to keep for VAT purposes, and explain his VAT return submission procedure and obligation under Making Tax Digital for Business. (4)

2) In response to Sardur's email:

- (a) Explain if the business is eligible for Apportionment Scheme 2, how the scheme operates and the advantages of using it. (4)
- (b) Calculate the output tax if Sardur had used Apportionment Scheme 2. (2)
- (c) Show the entries in the VAT control "T" account to record the transactions for the quarter ended 31 March 2021 and identify whether the closing balance is a VAT debtor or creditor. (3)

Total (18)

15. You work in practice as a tax adviser and you represent a number of clients. You have been asked to deal with the following client issues.

Sub-contractors and reporting obligations

Remy Ltd is a building firm and uses sub-contractors. Remy Ltd has just received the following invoice from Neil, an electrician and sub-contractor. Neil is not VAT registered. Neil is registered with HMRC but is not registered for gross payment status.

	£
Labour	2,000
Materials	300
Use of plant (owned by Neil)	150
Fuel for the plant	50
Fuel for the van	30
Four nights' accommodation	<u>200</u>
Total invoiced	<u>£2,730</u>

Remy Ltd employs staff across the UK. The company has a new accountant who would like to know the amounts to be reported to HMRC in respect of Neil's invoice. The accountant would also like to be informed of Remy Ltd's general reporting obligations as a contractor and the due dates by which it needs to return information on sub-contractors and make payments to HMRC.

Sole trader business

Conor McCaib started his own business selling advertising space on internet web pages to local businesses. Prior to this Conor was an employee and always paid tax through PAYE. Conor started trading on 1 May 2020 and will make his accounts up to 30 April each year. He is projecting that taxable trading profit will be £36,000 for the year to 30 April 2021 and will increase to approximately £42,000 in the next year.

**Requirements:**

- 1) **Calculate the amounts which Remy Ltd must report and pay to HMRC and the net amount it will pay to Neil. Include explanations of your treatment of each item on the invoice.** (5)
- 2) **Explain the HMRC reporting and payment obligations for Remy Ltd as a contractor, including the relevant due dates in respect of all of its sub-contractors.** (3)
- 3) **Explain the date by which Conor should register with HMRC for self assessment and calculate the amount of projected taxable trading income he will be assessed on for 2020/21 and 2021/22.** (4)

Total (12)

16. You are a tax adviser working in practice. One of your clients, Lorna, is a Scottish taxpayer. She runs a marketing business as a sole trader and has several clients. She has never been employed. She employs a part-time assistant paid £8,000 per annum.

A potential new client, Box-it Ltd, wants Lorna to prepare a daily email for its customers starting on 1 June 2021. The work arrangement is different to those for Lorna's other clients, which involve single projects. Lorna wants to know whether she will be considered an employee of Box-it Ltd for tax purposes. If so, she is concerned she will effectively pay National Insurance Contributions (NIC) twice.

Lorna will work for Box-it Ltd every weekday between about 8am and 10am. She will prepare the email which summarises that day's news stories relevant to Box-it Ltd's customers. When Lorna sends the email at 10am, it will appear to come from Box-it Ltd. Lorna does not have to attend the offices of Box-it Ltd. The company will provide her with a computer with publishing software and customer data. Lorna will be given a Box-it Ltd email address in order to receive information alerts from trade contacts of Box-it Ltd.

Lorna will receive a set fee per day, even if there is little news to include on that day's email. Box-it Ltd does not want Lorna's assistant to prepare the email on days when Lorna is sick or on holiday. Instead, the email will then be prepared by an employee of Box-it Ltd. Lorna will receive payment for up to 10 days in the year when she is absent.

Box-it Ltd will not give Lorna a detailed employment contract. However, if she is considered an employee under employment law, the company must provide a written statement setting out the terms of Lorna's employment. This will contain Lorna's name and that of the company, the start date of the employment and other items required by law. Lorna must then also complete a HMRC 'starter checklist' for Box-it Ltd before she can be paid.

**Requirements:**

- 1) **With reference to the scenario, explain the factors which indicate that Lorna may be considered an employee of Box-it Ltd, for tax purposes.** (5)
- 2) **Explain why and how rules apply to limit the total NIC payable by Lorna in a tax year if she is employed by Box-it Ltd. Clearly identify the classes of NIC payable by Lorna.** (4)
- 3) **State the other items which must be included in the written statement of employment.** (3)
- 4) **Explain why Box-it Ltd would require a completed 'starter checklist' from Lorna if employed and state Lorna's tax code for 2021/22. Assume rates and allowances remain the same as for 2020/21.** (3)

Total (15)



17. Your firm gives tax advice to Incredible plc, a quoted technology company. The company struggles to retain employees. Therefore, the directors want to offer the following new benefits to each employee:

- 1) £25 cash on their birthday;
- 2) Private medical insurance costing the company £350 per annum;
- 3) Opportunity to buy a computer-game console from the company for £250. The company buys consoles for £250 each using its supplier discount. The retail price is £315;
- 4) An interest-free loan of up to £20,000; and
- 5) Payment of the employee's annual subscription of £375 to their professional institute.

The financial controller, Melissa, wants your advice regarding the Income Tax treatment and reporting requirements for these new benefits.

On 30 June 2021, the innovation director Tulip will retire after working for the company for 20 years. Her colleague Sam has resigned to work for a competitor and will leave Incredible plc on the same date. Sam has worked for the company since 1 January 2018.

Incredible plc has operated a Share Incentive Plan (SIP) for many years, awarding free shares on 1 April each year to all employees. The SIP also holds dividend shares bought by Tulip and Sam with dividends received on 31 December each year. The SIP has no forfeiture provisions.

The financial controller, Melissa, wants to know the tax implications of the free and dividend shares being withdrawn from the plan when Tulip and Sam leave the company.

The directors want you to attend a meeting of employees to promote the new benefits package. They want you to explain it in a general presentation, before answering questions from individual employees.

**Requirements:**

- 1) **Write a letter to Melissa in which you:**
  - (a) **Explain whether each new benefit is chargeable to Income Tax and if so, how and when the company should report it to HMRC.** (7)
  - (b) **Explain the tax implications of the withdrawal of shares from the SIP when Tulip and Sam leave the company.** (5)
- 2) **Explain the fundamental principles that may be threatened by attending the meeting of employees and state one action you may take to mitigate any threat.** (3)

Total (15)