

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

May 2022

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. Alex is a VAT registered trader making standard rated supplies. On 25 August 2021, she sold three items to Mason for a total VAT inclusive price of £2,280. On 2 September 2021, she sold Mason a further two items for a VAT inclusive price of £1,560. Alex requires payment for all goods within 30 days of sale. On 31 March 2022, Mason had only paid £1,500 of the outstanding debt. Alex is now preparing the VAT return to 31 March 2022.

State the conditions which must be met in order for a trader to claim bad debt relief and explain the amount of bad debt relief which Alex may be entitled to claim on each outstanding balance. (4)

2. Yue Geng is a UK VAT registered trader. During the quarter to 31 March 2022, she undertakes the following transactions:

- 1) An export of ladies' footwear to Canada;
- 2) An import of electrical components from China;
- 3) Electronic marketing services provided by a business in Singapore, used by Yue Geng in the UK for business purposes; and
- 4) An electronic book-keeping system purchased from an American company, used by Yue Geng personally.

Explain how each of the transactions will be treated for VAT purposes. (4)

3. Plumb Ltd is a building contractor. On 10 February 2022, Plumb Ltd made a payment to Jenson, a plumber who is registered as a subcontractor for payment under deduction, based on the following invoice:

	£
Labour	1,575
Materials at cost	380
Travelling expenses	125
Lunch costs	<u>32</u>
	2,112
VAT at 20%	<u>422</u>
Total due	<u><u>2,534</u></u>

Plumb Ltd files its CIS300 form on 31 March 2022.

- 1) **Calculate the amount of the CIS deduction for Plumb Ltd and the amount Jenson will receive.** (2)
- 2) **Explain the details which must be included in the CIS300 form, the date it must be filed and the amount of penalty, if any, that Plumb Ltd may have to pay.** (2)

Total (4)

4. Mohammed is employed by Card Ltd on an annual salary of £58,000, paid evenly throughout the year. In April 2021, he joined Card Ltd's Payroll Deduction Scheme and authorised 5% of his salary to be donated to a registered charity each month. Mohammed also pays contributions of 6% of his gross salary into Card Ltd's occupational pension scheme. Mohammed receives no other benefits and has no other taxable income.

1) Explain how the Payroll Deduction Scheme operates for gift aid and how relief will be given for the pension contributions. (1)

2) Calculate the amount of Mohammed's salary that will be subject to PAYE and the primary and secondary National Insurance Contributions payable for 2021/22. (3)

Total (4)

5. Aggie is a Scottish taxpayer. In 2021/22, she received a salary from employment of £92,000 and private medical insurance paid for by her employer of £760, which has not been included in payroll.

Calculate Aggie's tax code for 2021/22. (2)

6. Martha is a director of Henley Ltd. During 2021/22 she was paid a gross salary of £4,000 per month, on the last working day of the month. In February 2022, she received a bonus of £5,000 and was given a pay rise of £500 per month.

Calculate Martha's primary Class 1 NIC liability for 2021/22. (2)

7. Kim Ltd first provided cars to employees for private use from 1 August 2021. It set up a Company Share Option Plan (CSOP), and granted the first options, on 1 August 2021. Kim Ltd does not payroll benefits.

State, with due dates, Kim Ltd's reporting obligations to HMRC for the cars and CSOP for 2021/22. (3)

8. Cyge plc paid salaries of £600,000 per month throughout 2021/22.

In the month ended 5 January 2022 Cyge plc also paid total bonuses of £900,000. The company also held a staff party on 20 December 2021 for which the total taxable benefit was £75,000.

Cyge plc had paid total apprenticeship levy of £14,000 for the eight months ended 5 December 2021.

Calculate the apprenticeship levy payable for the month ending 5 January 2022. (3)

9. Pig Ltd prepared accounts for the 13-month period ended 30 April 2020. It submitted two Corporation Tax returns for this period on 24 April 2022, paying the Corporation Tax on that date.

Pig Ltd has filed all previous returns on time.

Explain the late filing penalties. (3)

10. Biosolu Ltd has employed Sara since 21 December 2020. Sara gave birth to her son on 11 November 2021.

Sara gave Biosolu Ltd notice on 1 October 2021 that she wanted to start her maternity pay on 1 November 2021, the date her maternity leave started. She provided a letter from her doctor. The qualifying (15th) week for maternity pay was the week beginning 25 July 2021. Biosolu Ltd pays Sara monthly. On the six paydays prior to starting maternity leave her gross wages were:

	£
28 May 2021	620
25 June 2021	500
30 July 2021	600
27 August 2021	610
24 September 2021	580
29 October 2021	520

Explain, with supporting calculations, why Sara qualifies for Statutory Maternity Pay. (3)

11. Okonkwo plc operates a Share Incentive Plan (SIP) for employees such as Ifemelu. Ifemelu's gross annual salary was £15,000 before share transactions.

In January 2018, Ifemelu received the maximum permitted annual award of free shares. She also purchased the maximum permitted annual number of partnership shares, and Okonkwo plc awarded matching shares in full. The shares were worth £10 per share in January 2018.

In March 2022, Ifemelu left the company for a new job and withdrew the shares from the plan. The value was £7 per share in March 2022.

Calculate the total number of shares awarded in January 2018 and the amount chargeable to Income Tax when withdrawn from the plan. (3)

12. Frank is a sole trader. HMRC enquired into his self-assessment tax return for 2019/20 and issued a closure notice on 15 April 2022. Frank disagrees with an amendment on the closure notice and wants to complain.

On 1 May 2022, Frank realised that he had made a mistake on his 2020/21 tax return. Frank had submitted this online on 31 December 2021.

Explain the actions Frank should take about the closure notice and the incorrect return. (2)

13. Clare has worked for Distanz Ltd for four years. Distanz Ltd is a UK resident company and Clare is UK resident. She works in Manchester except for five months from 1 May each year when she works at the company's office in Denmark. Clare does not return to the UK during that time. Clare's wife, Sue, visits her in Denmark every August. Neither location is a temporary workplace for Clare.

In 2021/22 Distanz Ltd paid for the return flights to Denmark for Clare (£600) and for Sue (£750). Clare paid rent of £5,000 for an apartment in Denmark and Distanz Ltd did not reimburse this cost.

Explain the implications of these three 2021/22 costs on Clare's taxable employment income. (3)

PART II

14. You are a tax adviser in practice and Harper Redmon has been a personal tax client of your firm for many years.

Harper is a food nutritionist and started trading on 1 May 2021, selling recipe kits online, delivering takeaway food and providing health assessments. Harper uses various third-party websites to sell her recipe kits. Her monthly turnover excluding VAT is:

	£
Standard-rated supplies	10,660
Zero-rated supplies	1,880
Exempt supplies	4,220

On 1 February 2022, Harper sold an oven she had used in her business for £3,000 excluding VAT.

For the quarter ended 31 March 2022, Harper bought items for use in her business costing £29,000 (excluding VAT) on which input tax was:

	£
Wholly attributable to taxable supplies	2,350
Wholly attributable to exempt supplies	1,420
Non attributable	<u>1,950</u>
	<u>5,720</u>

Requirements:

- 1) **Explain when the VAT registration threshold was first exceeded, and from what date Harper became VAT registered. Identify which supplies are taken into account in applying the relevant test.** (4)
- 2) **Explain the records which must be kept digitally, by Harper for VAT purposes (under the making tax digital regime).** (4)
- 3) **Calculate the amount of VAT recoverable for the quarter ended 31 March 2022, using the standard method of partial exemption. Ignore the simplified tests for partial exemption.** (6)
- 4) **Show the accounting entries required to record the sales (excluding the oven) and all purchases and expenses for the quarter ended 31 March 2022. Assume that all input VAT can be fully recovered.** (3)

Total (17)

15. Anish Bahl runs an unincorporated business. Anish prepares accounts to 31 December each year and has two employees in the business; his wife Caroline and Barney Carruthers.

On 30 June 2021, Anish ceased to trade. The tax-adjusted trading profits, for the six months ended 30 June 2021, after deduction of capital allowance were £99,000. Anish started trading on 1 July 2018 and prepared his first set of accounts for the 18 months ended 31 December 2019.

The tax adjusted trading profits, after capital allowances for recent periods were:

	£
18-month period ended 31 December 2019	155,700
Year ended 31 December 2020	92,000

Anish does not receive any other taxable income. His Income Tax payable by self-assessment for 2020/21 was £24,500.

On cessation, the following items were transferred to Anish's employees:

- 1) A computer, costing £3,200, which had been used by Barney Carruthers only for private purposes since 6 April 2019. The computer was gifted to Barney on 30 June 2021. Its market value on that date was £1,275.
- 2) A petrol car, with CO₂ emissions of 143g/km, registered on 6 October 2018, which had been used by Caroline since that date for private purposes and had a list price of £39,000. On cessation of trade on 30 June 2021, Caroline bought the car from Anish for £20,000. Its market value on that date was £22,000.

The computer and car were not part of Barney and Caroline's redundancy packages and any benefit(s) arising have not been payrolled.

Both Caroline and Barney were members of an occupational workplace pension scheme which Anish set up in 2018. As part of a redundancy package, on cessation of trade, Anish made employer contributions into the pension scheme of £50,000 each for Caroline and Barney. During 2021/22, Caroline and Barney made gross employee contributions of £3,500 and £4,800 respectively. Caroline has always used up her annual allowance for pension purposes. Barney's total pension contributions, each year for the past three tax years were £12,000.

Caroline is classed as a high-income individual for pension purposes, and is only entitled to the minimum annual allowance. Barney's adjusted income is less than £100,000 and he is a higher rate taxpayer.

Requirements:

- 1) Calculate Anish's assessable trading income for 2021/22, and calculate the Income Tax payable by self-assessment by 31 July 2022 and 31 January 2023, assuming the first payment on account is paid in full, but for future payments, any beneficial claims are made. Ignore National Insurance Contributions. (6)
- 2) Explain how the transfer of assets to Caroline and Barney on cessation of trade should be reported to HMRC and calculate the total amount of all employment benefits assessable on them for 2021/22, together with the Class 1A NIC liability. (5)
- 3) Explain if there will be an Income Tax charge for Caroline and Barney in respect of the pension contributions for 2021/22. (2)

Total (13)

16. Fun plc is a UK company which operates tourist attractions. These include Olde Hall, an historic building in York. For many years, the company has had over 1,000 employees and an annual turnover of at least £20 million.

Tony

Tony is a tour guide who provides services through his company Ant Ltd. Ant Ltd is not VAT-registered.

Tony guides walking tours around York for members of the public who pay Ant Ltd directly. Ant Ltd also has a contract with Fun plc for Tony to guide public tours of Olde Hall.

When guiding tours of Olde Hall, Tony follows a route and a script provided by Fun plc. Ant Ltd's contract with Fun plc guarantees Tony work for three days each week and Tony must work when asked. When Tony was ill, he asked another tour guide, Sue, to guide his tours, proposing Ant Ltd would pay Sue a fee. However, Fun plc did not allow this. The company cancelled those tours and did not pay Ant Ltd for them.

Fun plc treats Tony as an off-payroll worker. Ant Ltd raises monthly invoices to Fun plc, charging daily fees for the work by Tony. Ant Ltd pays Tony a monthly salary and an annual dividend.

Mita

Fun plc has employed Mita as a maintenance worker since 6 October 2021.

The company provided Mita with a van to travel around company sites. She also used the van for significant private use. Fun plc paid for all its petrol. The van had a list price of £25,000 and CO₂ emissions of 150 g/km.

Mita attended a course to learn to use specialist equipment, costing the company £175 in October 2021. For passing the course, the company bought her flowers costing £60.

Fun plc paid £200 for private medical insurance for Mita in 2021/22.

In March 2022, Fun plc held a music workshop for the public. The company could not sell all the tickets so gave Mita a free ticket for her son Joe. The ticket had a retail value of £100. The company incurred £15 extra costs due to Joe's attendance.

Requirements:

- 1) **Explain why Fun plc must treat Tony as an off-payroll worker.** (4)
- 2) **Explain the PAYE and National Insurance contribution (NIC) implications of the payments made by Fun plc to Ant Ltd, and by Ant Ltd to Tony.** (4)
- 3) **List legal rights and protections enjoyed by employees but not self-employed contractors.** (3)
- 4) **Calculate the Class 1A NIC payable by Fun plc on Mita's benefits for 2021/22, showing clearly your treatment of each item.** (4)

Total (15)

17. Bunie Ltd has two directors, Sanjeev and Tamar, who own the entire share capital of the company equally. They each receive salaries of £130,000 per annum and have no other income.

Eight months ended 31 December 2021

On 1 June 2021, Bunie Ltd received its first patent royalty from Louise, an unconnected individual. The amount received was £4,000.

On 1 November 2021, Bunie Ltd paid annual interest on its £1,800,000 7% debentures. Individuals hold one third of the debentures and UK companies hold the remainder. All debenture holders are unconnected to Bunie Ltd.

Bunie Ltd is a large company for the purposes of Corporation Tax instalment payments. After taking account of all transactions, its Corporation Tax liability for the eight months ended 31 December 2021 was £266,000.

Loan to Sanjeev

On 1 January 2022, Bunie Ltd made a £500,000 loan to Sanjeev which is expected to remain outstanding for several years. Sanjeev paid interest at a rate of 0.5% per annum.

Tax planning

Bunie Ltd's tax adviser, Alison, has sold the company a plan to save tax. This involves several transactions between the company, a bank and a trust. Alison thinks there is an error in some new tax legislation which she has used to the directors' advantage. She claims the result is that Bunie Ltd can now effectively pay the directors bonuses without having to operate PAYE.

Alison believes that this does not breach the Standards for Tax Planning laid out in Professional Conduct in Relation to Taxation (PCRT). She designed this for Bunie Ltd's particular circumstances. It is fully disclosed to HMRC on relevant returns. Alison has prepared documentation showing why this works. Alison has not told the directors that HMRC interprets the new legislation differently, as she thinks HMRC is wrong.

Requirements:

- 1) State the periods for which CT61 returns are required for the eight months ended 31 December 2021 and explain, with supporting calculations, the entries on these returns. (4)**
- 2) Calculate the amounts, and state the due dates, of the Corporation Tax instalment payments for the eight months ended 31 December 2021. (3)**
- 3) Calculate the s.455 charge on Bunie Ltd and the cost to Sanjeev in 2021/22 of the loan. (4)**
- 4) Explain how Alison has breached the PCRT Standards for Tax Planning. (4)**

Total (15)