



# **May 2021 Examination**

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## **PAPER 3**

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### **Business Compliance**

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Part I Suggested Answers

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1.

Peter must wait at least 6 months from the later of: (1/2)

- when payment was due and payable; (1/2)
- the date of supply. (1/2)

The due date for payment may be determined by normal credit terms, or by any longer period for payment which Peter agreed with Laura (in this case one month). (1/2) A claim for the relief must be made within 4 years and 6 months of the later of:

- when payment is due and payable;
- the date of supply. (1/2)

Entitlement to bad debt relief is based upon the outstanding amount in respect of the supplies concerned. (1/2). ie £40 ((£360 -£120) x1/6) (1/2)

**Maximum 3 marks**

2.

Group registration results in the group of eligible persons being treated as a single taxable person for VAT purposes (1/2) and registered in the name of the representative group member. (1/2) Only one VAT return needs to be submitted on behalf of the group and the total input VAT suffered by the group is deducted from the total output VAT of the group; with only the excess being paid to HMRC. (1/2) There is no VAT on intra group supplies. (1/2)

Dominic cannot form a VAT group between himself and the two companies because he is not making any business supplies so is not eligible to register for VAT as a sole trader. (1) But the two companies could form a group because of Dominic's control of them both. (1)

**Maximum 4 marks**

**All relevant points made will be given full credit.**

3.

	<u>Taxable supplies</u>	<u>Exempt supplies</u>	<u>Total supplies</u>
	£	£	£
<u>Wholly attributable input tax:</u> (1/2)			
Taxable supplies	7,200		7,200
Exempt supplies		2,845	2,845
<u>Non attributable – recoverable %</u> 1,250,000 / 1,622,000 =78% rounded up (1)			
Re: taxable supplies 78% x £22,500(1/2)	<u>17,550</u>		17,550
Re: exempt supplies 22% x £22,500 (1/2)		<u>4,950</u>	<u>4,950</u>
<b>Input VAT</b>	<b><u>24,750</u></b>	<b><u>7,795</u></b>	<b><u>32,545</u></b>

De minimis test:

Is the monthly average attributable to exempt supplies not more than £625? No ( $£7,795 / 12$ ) = £650–failed (1/2)

Therefore, only the input tax relating to taxable supplies is recoverable. (1/2) The annual adjustment is therefore ( $£24,750 - £26,850$ ) = £2,100 repayable. (1/2)

**Maximum 4 marks**

4.

Both gifts will be subject to grossing up at 100/60.

The vouchers will be  $100/60 \times £150 = £250$ . (1/2)

The clock will be  $100/60 \times £120 = £200$ . (1/2)

Class 1B will be payable at 13.8% on the grossed up earnings; so  $£250 \times 13.8\% = £35$  (1/2) and  $£200 \times 13.8\% = £28$  (1/2).

**Maximum 2 marks**

5.

	£	
Income from relevant engagements	60,000	
Less 5% deduction	<u>(3,000)</u>	(1/2)
	57,000	
Less employers NIC on pay (£12,000-£8,788) x 13.8%	( 443)	(1)
	<u>(12,000)</u>	(1/2)
Less salary		
	44,557	
Gross deemed salary payment		
Less Employers NIC £44,557 x 13.8/113.8	<u>(5,403)</u>	(1)
Net deemed salary payment	<u>39,154</u>	

The income received from Barrow plc will form part of Patrick Ltd's profits for corporation tax purposes. (1/2) However, the gross deemed salary payment is deductible in arriving at Patrick Ltd's taxable profits for corporation tax purposes for the period in which the deemed payment is treated as being made. (1/2)

**Maximum 4 marks**

6.

In order to be eligible for SMP, Jenna had to meet the following conditions:

- She had to be on the payroll in the 'qualifying week' - the 15th week before the expected week of childbirth; (1/2)
- She must have given the correct notice; (1/2)
- She must have been continuously employed by the company for at least 26 weeks up to any day in the qualifying week; (1/2)
- She must have earned at least £120 per week (gross) in the 8-week 'relevant period'. (1/2)

The SMP payable to Jenna was:

- 90% of her average weekly earnings (AWE) before tax ie £159 for the first six weeks; (1/2)
- and for the remaining 33 weeks: £151.20 as it is less than 90% of her AWE. (1/2)

**Maximum 3 marks**

7.

Income Tax on grant of the options – nil. (1/2)

Income Tax on the exercise of the options in 2020/21:

	£	
MV on exercise (10,000 × £5)	50,000	(1/2)
Less exercise price (10,000 × £1)	<u>(10,000)</u>	(1/2)
Taxable amount	40,000	
Income Tax £40,000 × 45%	18,000	(1/2)

**Maximum 2 marks**

8.

Bogdan qualifies for Overseas Workday Relief (OWR) (1/2).

This is because Bogdan is non-UK domiciled (1/2), has been non-UK resident for at least three years (1/2), and 2020/21 is one of the three tax years following this period of non-UK residence (1/2).

This means that if Bogdan uses the remittance basis (1/2), the earnings related to the Romanian duties (September and October salary) are taxed only if remitted to the UK (1/2). Otherwise they are taxed on a receipts basis (1/2).

The earnings related to the UK duties are taxed on a receipts basis (1/2).

**Maximum 4 marks**

9.

The returns were late as due by 31 January 2020 (1/2) so;

- there is a penalty of £100 for each partner in respect of their own return; (1/2)
- and £100 for each partner in respect of the partnership return; (1/2)
- the enquiry notice is given before the deadline of 30 April 2021/ one year after the quarter date following delivery of the return. (1/2)

**Maximum 2 marks**

10.

Gilburr Ltd is a UK company (1/2) so could be a close company if it is controlled (1/2) by any number of directors (1/2) or five or fewer participators (1/2).

The directors hold 30% so do not control (1/2) as this does not exceed 50% (1/2). David and Edward are not associates so do not count as one participator (1/2). Six participators are needed for control (60%)/five participators only own 50% (1/2) and so the company is not close (1/2).

**Maximum 4 marks**

11.

Amount chargeable to Income Tax:

	£	
Round sum allowance	12,000	(1/2)
Lunches with potential clients	-	(1/2)
Tickets for football matches with trade contacts	-	(1/2)
Travel from home to clients' offices	(2,800)	(1/2)
Train travel for quarterly meetings at Pilcrowe Ltd's head office	(400)	(1/2)
Wifi charges when working away from home	(300)	(1/2)
Taxable amount for Sam	<u>£8,500</u>	

**Maximum 3 marks**

12.

$$1\% \times \text{£}13,000 \times 3 = \text{£}390 \text{ (1)}$$

$$2\% \times \text{£}13,000 \times 1 = \text{£}260 \text{ (1)}$$

$$5\% \times \text{£}13,000 = \text{£}650 \text{ (1)}$$

$$\text{Total} = \underline{\text{£}1,300}$$

**Maximum 3 marks**

13.

Income Tax is not payable on the employer's 3% contribution ie no PAYE deduction (1/2). There are also no National Insurance Contributions on this amount. (1/2)

Ralf's 5% contribution reduces the salary on which PAYE is operated ie PAYE is paid on the net amount (1/2). There is no reduction of the amount on which Class 1 NIC (primary and secondary) is payable. (1/2)

**Maximum 2 marks**



# **May 2021 Examination**

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## **PAPER 3**

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### **Business Compliance**

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#### Part II Suggested Answers

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## Part II

14.

### Part 1

#### (a) VAT registration

The taxable monthly supplies are £10,900. (1/2) Under the historic test, the VAT threshold of £85,000 was exceeded after 8 months (1); so 31 December 2020.(1/2)

Harvey should have notified HMRC within 30 days of the end of the month in which the threshold is exceeded;(1/2) so by 30 January 2021. (1/2).

#### **Maximum 3 marks**

#### (b) Penalties

VAT should have been accounted for in the period 1 February 2021 to 31 March 2021.

The sales in the period when Harvey should have been registered will be deemed to be VAT inclusive.

Therefore, the calculation of the maximum penalty is as follows:

Output VAT due (£18,000 x 1/6) £3,000(1/2) less input VAT of £1,000 = £2,000 potential lost revenue.(1/2)

£2,000 @ 30% = £600 (1/2)

As there is less than 12 months between the date that VAT first became unpaid and when Harvey notified HMRC, the penalty may be reduced to as low as nil as a result of an unprompted disclosure. (1/2)

#### **Maximum 2 marks**

#### (c) Records

Harvey must keep the following records:

- Business accounting records;
- Copies of all VAT invoices which have been issued by the business;
- All VAT invoices which have been received by the business;
- Documentation relating to all imports and exports
- Credit notes, debit notes and similar documents which evidence changes in the consideration for supplies made or received;
- A VAT account.

(1/2) for each type of record maximum 2 ½

Harvey must create his VAT return using digital links to transfer data to MTD-compatible software (1/2) and submit his returns digitally via the MTDfB platform. (1/2)

Harvey must file his return under MTDfB and make his payment by 1 month and 7 days after the end of the quarter. (1/2)

#### **Maximum 4 marks**



Part 2

(a) Apportionment scheme operation

The retail schemes are methods for arriving at the value of taxable retail supplies and determining what proportion of those sales are taxable at different rates of VAT.

Apportionment Scheme 2 is available for use by retailers with supplies not exceeding £130 million (1/2) per annum. The scheme is based on expected selling prices, (ESP) (1/2), which include VAT, of goods acquired for resale. (1/2)

Under Apportionment Scheme 2 the apportionment of gross takings involves a rolling calculation of the percentage which is always based on the last 12 months details. (1/2) The fraction used is (1):

$$\frac{\text{ESP of standard-rated goods received in the last 12 months}}{\text{ESP of all goods received in the last 12 months}}$$

The use of the scheme avoids distortions (1/2) from short-term fluctuations and, because of this, no annual adjustment is required. (1/2)

**Maximum 4 marks**

(b) Calculation

This would equal  $\text{£}2,650,000 \times \text{£}6,250,000 / \text{£}7,750,000 = \text{£}2,137,097$ . (1) The VAT recorded would then be 1/6<sup>th</sup> of this at  $\text{£}356,183$ . (1)

**Maximum 2 marks**

(c) VAT control T account

**VAT control account**

	£		£
Bank (1/2)	28,600	Balance b/f	28,600
Purchases (£800,000 x 20/120) (1/2)	133,333	Sales (£2,250,000 x 20/120) (1/2)	
			<u>375,000</u>
	Balance c/f <u>241,667</u> (1/2)		
	<u>403,600</u>		<u>403,600</u>

Further (1) for correct identification that the £241,667 is a creditor.

**Maximum 3 marks**

**(Total 18 marks)**

15.

1)

Remy's payment to HMRC is calculated as follows:

**Gross amount** – £2,730 – this is the total amount invoiced, including materials etc. (1/2)

**Qualifying CIS materials** – £350 – this is the qualifying materials, which includes the materials £300 (1/2) and the fuel for the plant £50. (1/2)

**CIS tax to deduct** – £476 – This is calculated as the gross amount of £2,730 less the qualifying CIS materials of £350. Giving a figure of £2,380 (1/2), which is then multiplied by the CIS tax rate of 20%. This then gives the £476 CIS tax to deduct. (1/2)

The contractor would therefore pay £476 to HMRC and the subcontractor £2,254. (1/2) The total paid out is the original invoice total of £2,730.

In this scenario the use of the plant is not a qualifying CIS material as it is owned by the subcontractor. (1/2) Labour (1/2) the fuel for travelling (1/2) and accommodation (1/2) are also not qualifying CIS materials.

**Maximum 5 marks**

2)

The contractor remits deductions of tax (at 20% and 30%) from sub-contractors to HMRC on a monthly basis. (1/2) on monthly return called form CIS300 (1/2) to HMRC no later than 14 days after the end of the tax month (ie by the 19th of each month). (1/2) If a payment is made electronically, the deadline for payment is extended until the 22nd of the month (or previous working day if this is a weekend or bank holiday). (1/2) The payments must be made together with income tax and NIC under PAYE, where relevant). (1/2)

Contractors with more than 250 employees must make the payments electronically (1/2). If the total monthly payments to HMRC are less than £1,500 on average, payments can be made quarterly. (1/2)

**Maximum 3 marks but credit given for all relevant points.**

3)

Conor should register within six months of the end of the tax year in which he started trading. (1/2) As he started trading in 2020/21, he should register for self-assessment by 5 October 2021. (1/2)

In the first tax year of trade which is 2020/21, Conor will be assessed on profits from commencement to the following 5<sup>th</sup> April (1/2) so  $11/12 \times £36,000 = £33,000$ . (1)

In the second tax year of trade which is 2021/22, Conor will be assessed on profits for the accounting period ending in that tax year so 30 April 2021 (1/2). As the accounting period is 12 months long, he will be assessed on £36,000. (1)

**Maximum 4 marks**

**(Total 12 marks)**

16.

1)

**Factors indicating employment (1 mark per explained employment factor, max 5 marks)**

Box-it Ltd controls when Lorna works ie between 8am and 10am each day and how she produces her output ie by email to clients.

There seems to be mutuality of obligation as Lorna must do the work every day and Box-it Ltd must pay her for it/regular engagement with no apparent end date.

Lorna must provide the service herself and cannot send her assistant as a substitute.

Lorna is integrated into the Box-it Ltd business given she is still paid for up to 10 days absence per year, and has a company email address so will appear to external contacts as an employee.

Box-it Ltd provides the equipment (computer and publishing software) for the work.

Lorna does not face any financial risk of there being few stories to include in the email, receiving a set daily fee.

**Maximum 5 marks**

2)

**NIC limit**

The annual maxima rules apply a maximum cap for the tax year (1/2) because Lorna is both self-employed and employed (1/2), paying Class 2 (1/2) and Class 4 NIC (1/2), and primary Class 1 NIC (1/2).

When Lorna submits her tax return, HMRC will calculate her annual maxima (ie the annual maxima is not a fixed amount) (1/2) to determine the reduced amounts of Class 2 (1/2) and Class 4 payable (1/2).

*These last two ½ marks might be expressed in terms of test 1 and test 2 applying to reduce the respective classes.*

**Maximum 4 marks**

3)

**Written statement of employment (½ mark per item, max 3 marks)**

Remuneration, including intervals when paid

Hours of work, holidays and holiday pay

Information about where health and safety rules are found

Notice period required on either side to terminate the contract

The period of employment if not indefinite

Lorna's job title or a description of the work

The place of work ie that Lorna is not required to work onsite

Collective agreements that affect the terms of employment

**Maximum 3 marks**

4)

**Starter checklist and tax code**

Box-it Ltd will enter information from the checklist on the full payment submission (FPS) when Lorna is first paid (1/2).

The checklist will contain a declaration from Lorna that this is her first employment since 6 April (1/2), enabling Box-it Ltd to determine her tax code/ deduct tax on a cumulative basis with full personal allowance available (1/2).

Lorna's tax code = S1250L (1½).

**Maximum 3 marks**

**(Total 15 marks)**

17.

1)

Tax Advisers  
1 High Street

Melissa Surname  
Financial controller  
Incredible plc  
Tech Town

Dear Melissa

As requested, here are the details of the tax treatment of the new benefits and the tax consequences in relation to the Share Incentive Plan (SIP) when employees leave. (1 mark letter format)

a)

### **New benefits**

The £25 cash is taxable on employees (1/2).

It should be reported under the usual Real Time Information payroll procedures (1/2) before or at the time of payment (1/2).

The private medical insurance is taxable (1/2). The amount should be reported on the form P11D (1/2) by 6 July following the tax year (1/2). Alternatively, if the company registers this benefit before the start of the tax year (1/2), the amount can be taxed through the payroll (1/2).

There is no benefit in respect of the computer-game console as the cost to the company (1/2) is made good by the amount paid by the employee (1/2).

There is a taxable benefit in respect of the interest-free loan provided the total loan at some point in the year is more than £10,000 (1/2). The taxable amount must be reported on the form P11D (1/2).

If the institute is on HMRC's approved list (1/2), the subscription is exempt as the employee would be able to claim an allowable deduction, if taxed (1/2).

*Marks for the timing of payroll items and P11D given wherever correctly stated.*

### **Maximum 7 marks including letter format**

b)

### **SIP**

As Tulip is retiring, then there are no Income Tax nor NIC charges (1/2) on withdrawal of her free shares and dividend shares.

For Sam, free shares received in 2019, 2020 and 2021 are withdrawn within three years(1/2), so Sam has an Income Tax charge on the market value of the shares when withdrawn from the plan (1/2).

As the shares will be readily convertible assets (because the company is quoted) (1/2), Sam will be charged primary Class 1 NIC (1/2) and the company will pay secondary Class 1 NIC (1/2). The company will have to operate PAYE, withholding Income Tax (1/2).

For free shares withdrawn from the plan between three and five years (those received in 2018) (1/2), Sam has an Income Tax charge and NIC charge on the lower of the market value of the shares when allocated and the market value on withdrawal (1/2).

Sam's dividend shares are all withdrawn within three years (1/2) and so the dividends used to purchase the shares are charged to Income Tax in 2021/22 (1/2). No NIC is charged on the dividend shares (1/2).

*Marks for NIC and PAYE given wherever correctly stated.*

I hope this explains these new benefits and the SIP matters.

Yours sincerely

An Adviser

**Maximum 5 marks**

2)

### **Ethics of meeting employees**

Objectivity may be threatened (1/2) as there may be a conflict of interest (1/2). Incredible plc is our client, not the employees, and the parties may have opposing interests (1/2).

Confidentiality may be threatened (1/2) as I will be talking to employees about a subject on which I have knowledge from advising the company (1/2).

Actions to mitigate the threat (1 mark maximum, for any relevant action such as):

Obtain written agreement from the company that I am able to discuss all aspects of the benefits including the company's motives.

Inform both the company and the employees of the possible conflict of interest.

Advise the employees to take independent advice.

Restrict question-answering to general facts about the benefits, and not advice specific to an individual employee's circumstances.

Refuse to attend the meeting if I think that the threats cannot be mitigated any other way.

**Maximum 3 marks**

**(Total 15 marks)**