



Practical Tax People  
Association of  
Taxation Technicians

## May 2017 Examination

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### PAPER 3

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### Business Compliance

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

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- You are required to answer **all** questions in each part (both parts printed together).
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. Calculators may not be used during this time.
- The Presiding Officer will inform you when you can start writing in the answer booklets.
- You are provided with two answer booklets (one for each part of the paper). Make sure you write your answers in the correct 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 I

**Write your answers in the Part I answer booklet.**

1. **State the conditions which must be met in order for two or more companies to register as a group for VAT purposes and explain the effect of group registration.** (2)
  
2. Ella is a VAT registered trader making standard rated supplies. For the quarter ended 31 March 2017, the VAT return submitted to HM Revenue & Customs showed sales of £75,000 on which output VAT of £15,000 was charged and purchases of £20,000 on which input VAT of £4,000 was reclaimed.  
  
Ella has now realised that she has made an arithmetical error and her sales for the quarter have been incorrectly stated. Her VAT-exclusive sales were actually £115,000.  
  
**Calculate and explain the maximum amount of penalty which HM Revenue & Customs could charge Ella in respect of this error.** (2)
  
3. Liam runs a VAT registered construction and investment property business. During the quarter ended 31 December 2016, he made the following supplies:
  - (a) Sale of a new commercial building to a clothing manufacturer.
  - (b) Sale of a five year old commercial building to a car sales business.
  - (c) Sale of a brand new residential property which he had built.
  - (d) Construction of a new village hall for a community charity.**State the VAT liability of each of these supplies.** (2)

The following information relates to questions 4 and 5.

Emma is employed by Whoops Ltd and earns £45,000 per year. She is paid monthly at the end of each month. In early March 2017, Whoops Ltd discovered that due to an error made in good faith during 2016/17 it had incorrectly calculated Emma's Class 1 primary National Insurance contributions, resulting in an underpayment of £1,500. Whoops Ltd would like to recover the underpayment from Emma.

4.
  - 1) **Calculate the amount of underpaid Class 1 primary National Insurance contributions that can be recovered from Emma in March 2017.** (2)
  - 2) **Briefly explain whether Whoops Ltd can recover the balance of the underpaid primary National Insurance contributions from Emma.** (1)
  
5. **Briefly explain the actions Whoops Ltd should take to rectify the underpayment with HM Revenue & Customs, and the options for correcting the payroll reporting.** (3)

6. Useless Ltd usually pays £30,000 of PAYE and Class 1 National Insurance contributions to HM Revenue & Customs each month. Useless Ltd pays salaries monthly at the end of each month and pays its PAYE electronically.

Due to an oversight, Useless Ltd did not pay the amounts due in respect of the salaries for April to August 2016 inclusive. These amounts were paid in full on 30 November 2016.

**Calculate, with brief explanations, the late payment penalties payable by Useless Ltd. (4)**

7. Annie is UK resident for tax but is non-UK domiciled. She was born in France but has lived in the UK for the past 15 years. Annie is employed by Rossdale Ltd in the UK on a salary of £35,000 per annum.

During 2016/17, Annie will work overseas in Qatar for five months. Rossdale Ltd has a subsidiary in Qatar. It has not yet been decided if Annie will be paid by Rossdale Ltd's subsidiary whilst she is overseas or if she will continue to be paid by Rossdale Ltd.

If the subsidiary pays Annie, she will set up a bank account in Qatar and will only transfer around half of her earnings to her UK bank account. If Rossdale Ltd continue to pay her then this will be directly to her UK bank account.

**Explain whether Annie's earnings will be taxed on the arising basis or the remittance basis during 2016/17. (3)**

8. John was provided with the following benefits by his employer in 2016/17:

- (a) An interest free loan on 5 May 2016 of £11,000. He received a further loan of £5,000 in July 2016 and repaid the total loan on 6 February 2017. John will not elect for the strict basis of calculating the loan.
- (b) A diesel company car with CO<sub>2</sub> emissions of 101g/km and a list price of £25,000. John made a capital contribution of £6,000 towards the car.

**Calculate the benefits in kind assessable on John for 2016/17. (4)**

9. Chris earns £15,000 per annum and decides to participate in his employer's Share Incentive Plan. He wishes to purchase the maximum amount of partnership shares during 2016/17.

**Explain how many partnership shares Chris will be permitted to purchase and how the purchase will be treated for PAYE purposes. (2)**

10. Gerry is a higher rate taxpayer. He has a company car benefit in kind of £6,350 and a medical insurance benefit of £1,000. Gerry had a tax underpayment of £2,000 in 2015/16 that is to be collected through his tax code.

**Calculate Gerry's PAYE tax code for the tax year 2016/17. (4)**

11. Joe is a VAT registered trader making reduced rate supplies. His trading results for the quarter ended 31 December 2016 are:

|                        | £      |
|------------------------|--------|
| Reduced rate sales     | 26,250 |
| Reduced rate purchases | 15,750 |

All figures are inclusive of VAT at the reduced rate and all sales and purchases were made for cash.

**Show the double entries needed in Joe's accounts for the quarter ended 31 December 2016 and calculate the VAT payable / repayable for the quarter.** (4)

12. **Explain why a retailer may wish to use a retail scheme to calculate their VAT liability.** (2)

13. In 1975, Olive married her husband. She applied for a certificate of election for reduced rate National Insurance contributions, which was provided to her employer. Olive earns £50,000 per year.

**Calculate the Class 1 National Insurance contributions payable by Olive and her employer for 2016/17.** (3)

14. Nicole is a solicitor based in the UK. Her friend Gayle, who lives in Barcelona, has asked Nicole for some legal advice in respect of an antique piece of furniture she is buying in Spain. Gayle is an antiques dealer specialising in Spanish antiques and is keen to expand her business. Nicole travels to Barcelona to advise Gayle and will be charging her for the advice she gives.

**Explain how the charges by Nicole to Gayle will be treated for VAT purposes.** (2)

## Part II

### Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. You are a tax adviser and act for Loughman Ltd.

Loughman Ltd is a partially exempt company and has a partial exemption year ending on 31 December 2016. In its quarterly VAT returns, Loughman Ltd has recovered all input VAT relating to both taxable and exempt supplies. Its results for the year ending 31 December 2016 are:

|   |                 |
|---|-----------------|
| Outputs   | £               |
| Standard-rated taxable supplies (VAT exclusive) | 62,500          |
| Exempt supplies                                 | <u>38,500</u>   |
|   | <u>£101,000</u> |
| Inputs  |                 |
| Wholly attributable to taxable supplies         | 24,800          |
| Wholly attributable to exempt supplies          | 5,775           |
| Non-attributable                                | <u>855</u>      |
|   | <u>£31,430</u>  |

During the quarter ended 31 March 2017, Loughman Ltd made a gift of stock to an employee and has also given discounts for prompt payment to some customers. The details are as follows:

- (a) On 1 February 2017, stock costing £1,026 (VAT inclusive) was gifted to an employee in recognition of their outstanding performance in 2016. The stock would normally be sold to a customer for £1,300 (VAT inclusive).
- (b) On 1 March 2017, Loughman Ltd supplied goods to a customer and issued an invoice for £1,200 (VAT inclusive). A 3% discount was offered to the customer for payment within 30 days. The customer paid the invoice on 21 March 2017.

The Managing Director of Loughman Ltd is finding that the preparation of quarterly VAT returns is very resource intensive. He has heard that there are some special schemes available which will reduce the administration burden.

**You are required to:**

- 1) Calculate the amount of VAT recoverable by Loughman Ltd for its VAT year ended 31 December 2016 using the simplified methods for partial exemption and consider if an annual adjustment is required. (5)
- 2) Calculate the value for VAT purposes of the gift of stock to the employee during the quarter ended 31 March 2017. (1)
- 3) Briefly explain the two alternative methods by which suppliers can give prompt payment discounts and calculate the net value of the supply made on 1 March 2017. (3)
- 4) Prepare a letter to the managing director explaining the conditions and operation of the cash accounting scheme and the flat rate scheme for VAT. (7)

Total (16)

2. Louis is a recruitment consultant and trades through LO Ltd. Louis is the sole shareholder and director of the company.

During 2016/17, Louis was engaged by Recruit Ltd under a contract for a fee of £50,000. During 2016/17, Louis withdrew a salary of £20,000 from LO Ltd which was taxed via PAYE and employer's National Insurance of £1,640 was paid.

LO Ltd is a personal service company and, if it did not exist, Louis would be treated as an employee of Recruit Ltd.

Louis is thinking of expanding his business and is keen to recruit other experienced consultants. However, he is unsure as to how to structure their contracts. He is thinking of taking on some consultants under full-time employment contracts but, as he is unsure how the business will perform longer term, he is also considering taking on some consultants on a self-employed basis.

**You are required to:**

- 1) **Calculate Louis's deemed employment payment and the total amount of National Insurance contributions due on Louis's actual and deemed employment income for 2016/17.** (5)
- 2) **Explain to Louis how any National Insurance contributions payable by LO Ltd in respect of the employed and self-employed consultants will be calculated.** (2)
- 3) **Explain four of the employment indicator tests used to determine the employment status of an individual.** (4)
- 4) **Explain how Louis will determine the correct tax code to apply when paying a new employee.** (4)

Total (15)

3. A new client of your firm is based overseas and has recently set up a new business in the UK. They have sent you the following email:

Payroll

We employ 10 people in the UK, mainly technology consultants. They are paid salary plus an annual bonus, and we provide private medical insurance to some employees. It would be very helpful if you could explain:

- (a) When payroll reports need to be filed.
- (b) What payroll deductions are made from employees and when these deductions need to be remitted to HM Revenue & Customs.
- (c) Any end of year reports which need to be provided to employees and HM Revenue & Customs, and their respective due dates.

Training and membership

As our UK team is new, we have paid for our technology consultants to undertake soft skills training in communication and teamwork.

Whilst it is not necessary for them to be a member of a professional body in order to carry out their role, we think it is important and so we will pay for our employees to join an HM Revenue & Customs approved professional technology body. We will also pay for their annual subscription to this body.

Can you explain if any of these costs would be taxable?

Travel

One of our employees, Dan, will be based at a client's office for a three year period, travelling directly from his home to the client's office each day. Dan will travel by train and we will reimburse the costs via expenses claims. Will these costs be subject to Income Tax and National Insurance contributions and, if so, how?

Another employee, Laura, has just agreed a contract to cover all clients in the North West area. Laura lives in the North East so will travel from her home to the North West most days carrying out various client visits. If we paid all of her travel costs, would there be any Income Tax and National Insurance contributions implications?

New client acceptance

We have recently received your firm's request to communicate with our previous tax adviser. Please could you explain the objectives of making this communication?

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

- 1) **Payroll queries.** (7)
- 2) **Training and membership costs.** (2)
- 3) **Travel queries.** (3)
- 4) **New client acceptance.** (3)

Total (15)

4. The following matters have arisen at a construction business, Brick Ltd.

Redundancy

David, a long standing employee, has been made redundant. He was paid monthly and worked his full notice period.

The following termination package was agreed between him and the company and was paid after Form P45 was issued to David:

|   | £      |
|---|--------|
| Statutory redundancy pay  | 5,000  |
| Ex-gratia compensation for loss of office                       | 20,000 |
| Payment directly into David's approved pension scheme           | 2,000  |
| Payment directly to David's legal adviser                       | 500    |
| Bonus payment for work carried out during David's notice period | 10,000 |

Construction Industry Scheme invoice

Brick Ltd has received an invoice from a subcontractor, Gravel Ltd. Brick Ltd has attempted to verify Gravel Ltd, but no record for Gravel Ltd has been found in HM Revenue & Customs' systems. The invoice from Gravel Ltd shows the following:

|   | £      |
|---|--------|
| Labour                                    | 10,000 |
| Materials (cost to Gravel Ltd was £5,000) | 5,500  |
| Scaffolding hire from third party         | 1,000  |
| Wear and tear on own equipment            | 100    |

**You are required to:**

- 1) Calculate, with brief explanations, the Income Tax to be deducted from David's termination payment when it is paid by his employer. (4)**
- 2) Explain four ways in which a contract of employment can end without a breach of its terms by either party. (4)**
- 3) Calculate, with brief explanations, the Construction Industry Scheme deductions to be made from the invoice provided to Brick Ltd. (3)**
- 4) Explain how Gravel Ltd could claim credit for the Construction Industry Scheme deductions made by Brick Ltd. (3)**

Total (14)