

1. Yasmin is employed as a director by Peel Ltd. She receives a basic salary of £3,000 per month. In addition, she received a bonus of £20,000 in August 2017.

Calculate the total Class 1 National Insurance Contributions payable by Yasmin for 2017/18. (3)

2. Draco Ltd employs Gavin and Claude as sales representatives. During 2017/18, the following benefits were provided:

From 6 December 2017, Gavin was provided with a car with a list price of £17,500 and CO₂ emissions of 137g/km. Gavin made a capital contribution of £2,500 towards the cost of the car. Draco Ltd pays for all petrol.

From 6 January 2018, Claude was provided with a diesel van. The van has a list price of £12,000 and CO₂ emissions of 125g/km. Draco Ltd do not provide diesel for private use of the van.

Calculate the benefits in kind for Gavin and Claude for 2017/18. (4)

3. In the tax month ending 5 May 2018, Freddie Ltd paid its employees cash earnings of £500,000. It also provided taxable benefits in kind valued at £5,000. The benefits were subject to Class 1A NIC.

Calculate the apprenticeship levy payable by Freddie Ltd in respect of the amounts paid during the tax month ending 5 May 2018. (3)

4. A VAT registered business is under an obligation to keep and preserve certain records.

State five types of record that must be kept for VAT purposes and the period of retention. (3)

5. **State the VAT liability of the following supplies:**

- 1) Conversion of an office building into residential apartments.
- 2) Staff gratuities.
- 3) Supply of newspapers.

(3)

6. Emily normally works Monday to Friday. She was off sick from her employment from Tuesday 6 February to Monday 12 February, returning to work on Tuesday 13 February.

Briefly explain how many days of Statutory Sick Pay Emily is entitled to. (2)

7. **Briefly explain how the Married Women's Reduced Rate works for both primary and secondary National Insurance Contributions.** (2)

8. Pellow Ltd makes standard rated supplies. At 1 May 2017, it had a VAT creditor of £11,000. During the quarter ended 31 July 2017 it made VAT inclusive purchases of £150,840 and VAT inclusive sales of £118,200. It paid VAT of £10,000 to HM Revenue & Customs during the quarter.

Show the entries in the VAT control "T account" to record these transactions and calculate the closing VAT debtor / creditor. (3)

9. **Explain the Income Tax consequences of share options granted and exercised under a Company Share Option Plan, and whether such shares can be granted at a discount.** (4)

10. Junfu is UK resident and has adjusted net income of £110,000 for 2017/18. He also received benefits in kind valued at £13,000 for tax purposes which have not been included in payroll.

Calculate Junfu's tax code for 2017/18. (3)

11. Angel Ltd filed its VAT returns for 2017/18 as follows:

Quarter ended	VAT due £	Date return submitted	Date VAT paid
30 June 2017	12,000	6 July 2017	12 August 2017
30 September 2017	16,000	10 October 2017	18 October 2017
31 December 2017	10,000	9 February 2017	18 February 2017
31 March 2018	25,000	6 May 2018	21 May 2018

Explain the default surcharge implications of these returns and payments and calculate any default surcharge(s) due. (4)

12. **Explain the conditions that must be met in order for two or more companies to apply for registration of a VAT group and the impact of being treated as a group for VAT purposes.** (3)

13. Gayle has been UK resident for the past four years but is non-UK domiciled. She works for a company resident overseas but with offices in the UK. Gayle claims the remittance basis for taxation of her overseas income.

During 2017/18 Gayle spent eight months working in the UK and four months working overseas. She has a single employment contract. Her salary from her overseas duties is paid into an overseas bank account and no remittances have been made to the UK during 2017/18.

Explain why Gayle's overseas earnings are fully taxable in the UK. (3)



May 2018 Examination

PAPER 3 PART II

Business Compliance

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

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time, you may read and annotate your Part II question paper. You may also read the legislation and use your calculator.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II 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.

1. You are a tax adviser and your firm acts for a client, Moira. Your manager has asked for your assistance in dealing with the following:

VAT

Moira is a partially exempt trader running a large shop based in a city centre which supplies food, cleaning products, newspapers and postal services. In the quarter ended 28 February 2018 the business records show the following:

	£
Input VAT relating to standard rated supplies	6,785
Input VAT relating to zero-rated supplies	3,580
Input VAT relating to exempt supplies	7,295
Non-attributable VAT	<u>3,065</u>
	<u>20,725</u>
Standard-rated supplies (net)	60,129
Zero-rated supplies	32,258
Exempt supplies	<u>133,500</u>
	<u>225,887</u>

During the quarter Moira also purchased a company car for an employee at a VAT-inclusive cost of £13,500.

Retirement

Moira is looking to retire from the business in the near future and has started to reduce the amount of work she is doing with the result that her sales have started to decrease. She has asked for some advice on deregistering for VAT.

Instead of ceasing her business altogether, Moira may transfer it to a large supermarket chain that runs a similar business. Moira is very concerned about this though as she feels that administratively it would be very complicated because it involves the transfer of premises, stock and all employees to the supermarket chain.

New business

Moira has informed you that once she retires from her current business, she will set up a new company and run a management consultancy business from home. She has already been approached by potential clients and is putting a business plan together.

She estimates that for the year to 31 July 2019 the company will have turnover of £86,000 and costs of £1,000 for stationery. She is interested in registering for the flat rate scheme for VAT as she thinks the flat rate percentage of 14% will be applicable to the company and that this will be beneficial.

You are required to:

- 1) Calculate the amount of input tax reclaimable for the quarter ended 28 February 2018 using the standard method for partial exemption. (5)**
- 2) State the circumstances when a business is compulsorily deregistered for VAT, the time limit for notifying HM Revenue & Customs of the deregistration and the date from which it will take effect. (2)**
- 3) Explain if the transfer of Moira's business to the large supermarket chain is likely to be treated as a transfer of a going concern and, if so, the effect this has. (4)**
- 4) Explain whether Moira's new business will be classed as a limited cost trader and, if so, what effect this will have on her use of the flat rate scheme. (4)**

Total (15)

2. Charlotte, the new finance director of one of your clients, writes to you with the following queries:

Late PAYE returns and payments

Due to an oversight, some PAYE remittances were paid late. I've checked our records and the company's payments due on 19 May to 19 September 2017 inclusive were all late. All the amounts were eventually paid on 1 October 2017. Please could you explain if there are any penalties or interest for late payment and how these will be calculated?

In addition to the late payments, the company's Full Payment Submissions were also filed late. These were also due on 19 May to 19 September 2017 inclusive and were filed on 1 October 2017. Please could you explain what the penalties will be for late filing?

All our returns and payments have been filed on time since 1 October 2017.

Payroll giving

Some employees have been asking if they could make charitable contributions via a payroll giving scheme. Please could you explain how this works?

Expenses

Our IT director has submitted an expense claim which includes the following items:

- (a) Initial professional fee to join an IT institute.
- (b) Annual subscription for an IT institute. The institute provides training and professional updates which are relevant to the director's role.
- (c) Serviced apartment and train travel expenses relating to a two month full time secondment in our Manchester offices.
- (d) Golf club fees – the director has only claimed half of the cost, and has joined as two of our major clients are also members so it is useful for business entertaining.

We will pay the expenses via the payroll. Should any of these expenses be subject to Income Tax and, if so, how will the tax be paid?

Staff benefits

We have a PAYE Settlement Agreement in place for staff entertaining and gifts for 2017/18. Throughout the year we provided the following to our 100 staff, who are all basic rate taxpayers:

	£
Annual staff Christmas party:	10,000
Five year company anniversary event:	8,000
Easter chocolate hamper:	3,000

Please could you calculate, with brief explanations, the company's PAYE Settlement Agreement liability and explain when this should be paid? I would also be grateful if you could note what type of National Insurance Contributions needs to be paid.

You are required to write a letter responding to Charlotte's questions. Marks will be awarded as follows:

- | | |
|--|-------------------|
| 1) Late PAYE returns and payments | (9) |
| 2) Payroll giving | (2) |
| 3) Expenses | (3) |
| 4) Staff benefits | (4) |
| | Total (18) |

3. You are an adviser in a small tax practice and have been asked to prepare some calculations and notes on the following client matters:

Abigail Ltd

Abi, a new client, has a consultancy business. She provides services to clients via her personal service company, Abigail Ltd. Throughout 2017/18 Abigail Ltd was paid £50,000 by one client. The engagement is considered to fall within the "IR35" rules. Abigail Ltd pays Abi an annual salary of £11,500.

Abigail Ltd requires a calculation of Abi's net deemed payment for 2017/18.

As Abigail Ltd is a new client, your manager would like you to obtain professional clearance from the previous adviser. Abi is happy for you to do this but has asked why it is needed. Your manager has asked you to explain the objectives of an adviser in obtaining professional clearance.

Phoebe

Phoebe is a senior employee of one of your clients. She is being made redundant after many years of service. The following payments are being made to her in respect of the termination:

	£
Contractual payment in lieu of notice:	12,000
Statutory redundancy:	8,000
Enhanced redundancy calculated by reference to years of service:	32,000
Legal fees paid to Phoebe's solicitor in respect of the termination:	500

Your client requires you to calculate the amount of Phoebe's termination payment subject to Income Tax.

Your client would also like an explanation of the five ways in which a contract of employment may terminate without a breach of contract.

You are required to:

- | | |
|---|-------------------|
| 1) Calculate the net deemed payment to Abi. | (4) |
| 2) Explain the objectives of obtaining professional clearance. | (3) |
| 3) Calculate Phoebe's taxable termination payment. | (3) |
| 4) Explain the five ways in which a contract may terminate without breach. | (5) |
| | Total (15) |

4. Finn Ltd is a new construction business. Their managing director has emailed you some queries in advance of your first meeting:

CIS returns

I am not very familiar with the Construction Industry Scheme requirements. As a starting point, please can you explain in our meeting what Construction Industry Scheme returns we need to make to HM Revenue & Customs, by when, and how these are submitted? It would also be appreciated if you could outline what is included on the returns.

CIS invoice

We have received our first invoice from a subcontractor who is paid under deduction but not registered for gross payment status. The subcontractor has mentioned that they add £100 profit to all their materials to cover their time costs in sourcing materials.

Please can you calculate, with brief explanations, the deduction required under the Construction Industry Scheme and the amount which needs to be paid to this subcontractor? A copy of the invoice is below:

	£
Labour	2,000
Materials	<u>600</u>
	2,600
VAT @ 20%	<u>520</u>
Invoice Total	<u>3,120</u>

VAT registration

I am not sure if the business needs to be registered for VAT. We have not yet done anything about this but we are about to invoice a customer for work done which totalled £100,000. A friend of mine has advised me that the business will “exceed the VAT threshold” because of this but I would like to understand what the rules are and when I would need to register the business for VAT. Can you let me know?

VAT invoice

I have also been told that if the business registers for VAT, any invoices issued must be “valid”. I am not quite sure what needs to be included on the invoice to ensure it is valid. Can you please advise?

You are required to prepare notes in advance of your meeting with Finn Ltd. Marks will be awarded as follows:

- | | |
|----------------------------|------------|
| 1) CIS returns | (4) |
| 2) CIS invoice | (3) |
| 3) VAT registration | (2) |
| 4) VAT invoice | (3) |

Total (12)