



May 2018 Examination

PAPER 3

Business Compliance

Part I Suggested Answers

1.

Annual earning period for directors is used for NIC purposes. Yasmin's annual earnings are:
 $£3,000 \times 12 + £20,000 = £56,000$ (1 mark)

NIC payable:

$(£45,000 - £8,164) \times 12\% = £4,420$ (1 mark)

$(£56,000 - £45,000) \times 2\% = £220$. (1 mark)

£4,640

2.

Gavin:

Relevant % = $(135 - 95) / 5 + 18\% = 26\%$ (1 mark)

Car benefit = $(£17,500 - £2,500)$ (1/2 mark) $\times 26\% \times 4/12$ (1/2 mark) = £1,300

Fuel benefit = $£22,600 \times 26\% \times 4/12 = £1,959$ (1 mark)

Claude:

Van benefit = $£3,230 \times 3/12 = £807$ (1 mark)

3.

Cash earnings of £500,000 (1/2 mark) $\times 0.5\%$ (1/2 mark) = £2,500

Less levy allowance of £15,000 (1/2 mark) / 12 (1/2 mark) = £1,250

Apprenticeship levy payable = £1,250 (1/2 mark)

Benefits subject to Class 1A NIC are exempt from the apprenticeship levy (1/2 mark)

4.

A VAT registered trader must keep:

- 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, and documentation relating to all EC acquisitions of goods and dispatches of goods;
- Credit notes, debit notes and similar documents which evidence changes in the consideration for supplies made or received; and
- A VAT account.

(1/2 mark each Max 2½ marks)

Business records must be kept for a minimum of 6 years (1/2 mark)

5.

- 1) Reduced rate (5%) (1 mark)
- 2) Outside the scope of VAT (1 mark)
- 3) Zero rated (1 mark)

- 6.
- Emily has a Period of Incapacity for Work as she was off sick for 4 or more consecutive days **(1/2 mark)**.
 - The first three days are qualifying days and so no SSP is paid **(1/2 mark)**.
 - Emily is therefore entitled to 2 days of SSP. **(1/2 mark)**.
 - She does not receive SSP for the weekend as she does not normally work weekends **(1/2 mark)**.

7.
For primary Class 1 NICs, the Married Women's reduced rate of 5.85% **(1/2 mark)** applies to earnings between the primary threshold and upper earnings limit **(1/2 mark)**. Earnings above the upper earnings limit are subject to NIC as usual at 2% **(1/2 mark)**.

No reduction applies to secondary NICs, which are calculated as usual **(1/2 mark)**.

8.

VAT control			
DR	£	CR	£
Purchases (£150,840 x 1/6) (1/2 mark)	25,140	Bal b/f	11,000
VAT payment	<u>10,000</u>	Sales (£118,200 x 1/6) (1/2 mark)	19,700
	<u>35,140</u>	Bal c/f (1 mark)	<u>4,440</u>
			<u>35,140</u>

1 mark – entering figures on correct side of the T account (marks above are for correct calculation).

9.

- No income tax is due on the grant of options under a CSOP. **(1 mark)**
- No income tax is due on CSOP options which are exercised between 3 **(1/2 mark)** and 10 **(1/2 mark)** years from the date of grant.
- If a CSOP is exercised before 3 years or after 10 years, a tax charge will arise on exercise **(1/2 mark)**. The amount chargeable is the difference between the market value at the date of exercise and the amount paid. **(1/2 mark)**
- Income tax will be collected via PAYE if the shares are Readily Convertible Assets **(1/2 mark)** or otherwise via self-assessment **(1/2 mark)**
- Options under a CSOP cannot be granted at a discount. **(1/2 mark)**

Max 4 marks. Marks will be awarded for any relevant points regarding CSOP exercise conditions around redundancy, etc.

10.

Junfu's personal allowance will be adjusted by £1 for every £2 his adjusted net income exceeds £100,000. His revised personal allowance is:

	£
Personal Allowance	11,500
Less abatement	(5,000) (1 mark)
Less benefits	<u>(13,000) (1/2 mark)</u>
Negative allowance	(6,500)

We remove the 0 to give 650 then deduct 1 to give 649 **(1/2 mark for removing 0 and 1/2 mark for deduction)**

This will give a code of K649 **(1/2 mark for K)**

11.

The VAT for quarter ended 30.6.17 was paid late so a surcharge period runs from 1.7.17 to 30.6.18. **(1/2 mark)**. There is no financial penalty for the first default **(1/2 mark)**

The VAT return for quarter ended 30.9.17 was filed and paid on time so no penalty is due and the surcharge period is not extended **(1/2 mark)**.

The VAT return for quarter ended 31.12.17 was filed late and VAT was paid late so there will be a surcharge of 2% of VAT due, so $2\% \times £10,000 = £200$. **(1/2 mark)** However, as this is less than £400 it will not be collected **(1/2 mark)**. The surcharge period will be extended to 31.12.18 **(1/2 mark)**.

For the quarter ended 31.3.18, the VAT was paid late. A surcharge of 5%, so £1,250 will be due. **(1/2 mark)**. The surcharge period is extended to 31.3.19 **(1/2 mark)**.

12.

Two or more bodies corporate can apply for group registration where:

- One of them controls another
- One person or company controls them all
- Two or more individuals carrying on business in partnership control them. **(1/2 mark)**

In addition, they must all have a fixed establishment in the UK. **(1/2 mark)**

The impact of group registration is that:

- The group is treated as one single taxable person
- A representative member is responsible for all VAT accounting
- All companies are jointly and severally liable
- Supplies between group members are disregarded for VAT purposes

(1/2 mark each, maximum 2)

13.

Gayle cannot claim Overseas Workday Relief as she has been resident in the UK for more than 3 consecutive tax years **(1 mark)**.

She can only claim the remittance basis if the overseas earnings are 'chargeable overseas earnings' **(1 mark)**.

As Gayle's duties are not wholly carried on outside the UK, they are not chargeable overseas earnings. **(1/2 mark)**. Therefore her overseas earnings are fully taxable in the UK, despite there being no remittance from the overseas bank account **(1/2 mark)**.



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Business Compliance

Part II Suggested Answers

1. Partial exemption

Wholly attributable input tax	Taxable supplies £	Exempt supplies £	Total supplies £
Standard-rated supplies (1/2 mark)	6,785		6,785
Zero-rated supplies (1/2 mark)	3,580		3,580
Exempt supplies (1/2 mark)		7,295	7,295
Car – Irrecoverable (1/2 mark)			
Non-attributable input tax Recoverable amount: $60,129 + 32,258 = 41\%$ 225,887 (1 mark)			
Attributable to taxable supplies $41\% \times \text{£}3,065$ (1/2 mark)	1,257		1,257
Attributable to exempt supplies: $59\% \times \text{£}3,065$ (1/2 mark)		1,808	1,808
Total	11,622	9,103	20,725

Test for de minimis:

Is the monthly average attributable to exempt supplies £625 or less?

$\text{£}9,103 / 3 = \text{£}3,034$ – Test not met

Is the proportion of VAT on exempt supplies no more than 50% of all input VAT for the period?

$\text{£}9,103 / \text{£}20,725 = 43.9\%$ - test met

Both parts of the test must be met for de minimis to apply. Only the input tax of £11,622 relating to taxable supplies is recoverable (1 mark).

Deregistration

Compulsory deregistration for VAT occurs if a business ceases to make taxable supplies or changes status (e.g. from a sole trader to a company). (1 mark)

HM Revenue & Customs must be notified within 30 days (1/2 mark) and deregistration takes effect from the date of the relevant event. (1/2 mark)

Transfer of a going concern

A transfer of a going concern will be treated as outside the scope of VAT. **(1 mark)**. The conditions are that:

- The assets are to be used by the transferee in carrying on the same kind of business as that carried on by the transferor. **(1/2 mark)**
- In a case in which the transferor is a taxable person (i.e. registered or liable to be registered for VAT), the transferee must already be a taxable person or immediately become, as a result of the transfer, a taxable person. **(1/2 mark)**
- The effect of the transfer must be to put the new owner in possession of a business which can be operated as such **(1/2 mark)**
- The business transferred must be a “going concern” at the time of transfer. **(1/2 mark)**
- There should be no significant break in the normal trading pattern before or immediately after the transfer. **(1/2 mark)**

It appears that Moira’s transfer satisfies these conditions and the effect is that Moira will not have to charge VAT on the assets sold to the supermarket chain. **(1/2 mark)**

Flat rate scheme

Businesses will be classed as limited cost traders if their VAT inclusive expenditure on relevant goods is either:

- Less than 2% of their flat rate turnover in a prescribed accounting period or **(1 mark)**
- Greater than 2% of their flat rate turnover but less than £1,000 per annum if the prescribed accounting period is one year **(1 mark)**

If the business meets either of the two conditions above then it will be a limited cost business and it will need to use the 16.5% flat rate **(1 mark)** to calculate the amount of VAT due to HM Revenue & Customs under the scheme.

Relevant goods include stationery and 2% of Moira’s £86,000 estimated turnover is £1,720 **(1/2 mark)**. Therefore her spend will be less than the 2% limit and she will be a limited cost trader, required to use the flat rate of 16.5%, not 14% **(1/2 mark)**

2.

1 mark for letter format (1/2 mark each for appropriate header and footer/sign off)

[Client address]
[Date]

[Adviser address]

Dear Charlotte,

Employment tax queries

Many thanks for your recent letter. I have responded to your queries below:

Late PAYE returns and payments

Penalties are levied for late payments of PAYE. The amount of the penalty depends on the number of 'defaults' (i.e. late payments) in a year. **(1/2 mark)**.

The late payment which was due on 19 May does not count as a default so no penalty will be levied. **(1/2 mark)**.

The late payments which were due on 19 June, 19 July and 19 August **(1/2 mark)** count as the 1st, 2nd and 3rd defaults **(1/2 mark)**. The penalty will be calculated as 1% **(1/2 mark)** of the amount of PAYE tax and NIC due **(1/2 mark)**.

The payment which was due on 19 September **(1/2 mark)** counts as the 4th default and attracts a penalty of 2% **(1/2 mark)** of the PAYE tax and NIC due.

Interest is due on late paid PAYE from the due date to the date of payment. **(1/2 mark)**

The first late Full Payment Submission (FPS) due on 19 May will not attract a penalty as it is the first late submission in the tax year. **(1/2 mark)**.

The penalty for subsequent late FPS returns depends on the number of employees included on the return **(1/2 mark)**. As the company has 100 employees, the penalty will be £300 **(1/2 mark)** for each of the late FPS submissions of 19 June, 19 July, 19 August and 19 September 2017. **(1/2 mark)**

In addition, the FPS return due on 19 June 2017 **(1/2 mark)** was more than 3 months late **(1/2 mark)** so a further penalty is due. This is calculated as 5% of the tax and NIC **(1/2 mark)** shown on the FPS.

8 marks maximum (9 including presentation mark)

Payroll giving schemes

Under a payroll giving scheme, the company will enter into an arrangement with a payroll giving agency which is approved by HMRC. **(1/2 mark)** The employee will tell the company how much should be deducted from their pay each month. **(1/2 mark)** The company will deduct this from their pay and pass it to the agency at the same time as PAYE deductions are made i.e. 14 days after the end of the tax month. **(1/2 mark)**

The employee's taxable gross pay will be reduced by the amount of the charitable donation **(1/2 mark)**. Payroll giving will not however affect the amount of NIC an employee pays. **(1/2 mark)**

2 marks maximum

Expenses

The initial professional fee to join the IT institute will be taxable, as it is not a requirement to have this membership in order to work as an IT director. **(1/2 mark)**

The annual subscription to the IT institute is not taxable, as the subscription will assist the director in the performance of their duties of employment. **(1/2 mark)**

The serviced apartment and train travel expenses are not taxable; as the secondment lasted for a period of less than 24 months **(1/2 mark)** Manchester is considered to be a temporary workplace. **(1/2 mark)**

The golf club membership fees are taxable, even though the director will meet clients there. **(1/2 mark)**

The income tax due on the taxable expenses will be collected via PAYE as part of the payroll process. **(1/2 mark)**

3 marks

Staff benefits

The staff Christmas party is exempt from tax as it is an annual event and less than £150 per head. **(1/2 mark)**

The Easter chocolate hamper is also exempt from tax as it is a trivial benefit costing less than £50 per employee. **(1/2 mark)**

The 5 year company event is taxable as it does not appear to be an annual event and, in any case, the £150 tax exempt limit applies across all events during the year. **(1/2 mark)** The PSA calculation is as follows:

Tax due: £8,000 x 100/80 x 20% =	£2,000	(1 mark)
NIC due: £10,000 x 13.8% =	<u>£1,380</u>	(1/2 mark)
Total due:	£3,380	

The PSA is a settlement of income tax and Class 1B National Insurance Contributions **(1/2 mark)** which must be paid to HMRC by 19 October following the end of the tax year (22 October if paid electronically). **(1/2 mark)**

4 marks

I hope this has answered all your queries. Please contact me should you have any further questions.

Yours sincerely,

[Adviser name]

3. Abigail Ltd – net deemed payment

	£
Income	50,000 (1/2 mark)
Less 5% automatic deduction	<u>(2,500)</u> (1/2 mark)
	47,500
Less salary	(11,500) (1/2 mark)
Less secondary NICs on salary (£11,500 – 8,164 x 13.8%)	<u>(460)</u> (1 mark)
Deemed payment	35,540
Less employer NIC on deemed payment (35,540 x 13.8/113.8)	(4,310) (1 mark)
Net deemed payment	31,230 (1/2 mark)

Professional clearance

The objectives of an adviser obtaining professional clearance are to ensure that:

- The incoming adviser is fully aware of all the factors that may be relevant to the acceptance of the appointment and the effective handling of the client's tax affairs
- The incoming adviser is fully aware of all factors that may have a bearing on ensuring full disclosure of all relevant facts to HMRC
- The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

1 mark for each point providing an adequate explanation is given.

Phoebe – termination payment

	Taxable £	Exempt £
Contractual PILON	12,000 (1/2 mark)	
Statutory redundancy (£22,000 of tax free £30k remaining) (1/2 mark)		8,000 (1/2 mark)
Enhanced redundancy	10,000 (1/2 mark)	22,000 (1/2 mark)
Legal fees		500 (1/2 mark)
Totals	22,000	30,500

Termination without breach

A contract of employment may terminate without breach in one of the following ways:

- By proper notice duly given (this may not be less than the statutory period, whatever the contract may specify)
- By the passing of time, when fixed term contracts expire without renewal
- By agreement, that is the parties to the contract agree to end their relationship at any time and upon any terms
- By frustration (which may arise on death, ill health, imprisonment or prolonged absence)
- By payment in lieu of notice, if there is a contractual right to terminate an employment on making a payment in lieu of notice.

1 mark for each point providing an adequate explanation is given.

4. CIS returns

Finn Ltd will need to submit a monthly CIS300 return **(1/2 mark)** to HMRC. The return must be filed by 14 days after the end of the tax month **(1/2 mark)**. The return must be filed electronically with HMRC. **(1/2 mark)**.

The return will include the following information:

- Amounts paid to subcontractors under the CIS **(1/2 mark)**
- The amount of tax deducted from payments, if any **(1/2 mark)**
- Materials element of invoices, if any **(1/2 mark)**
- A confirmation that no payments were made to employees **(1/2 mark)**
- A confirmation that subcontractors have been verified with HMRC. **(1/2 mark)**

CIS invoice

The deduction is calculated as follows:

	Invoice amount £	Amount of deduction £
Labour – as the subcontractor is registered with HMRC but not paid gross, 20% should be deducted from all labour amounts (1/2 mark)	2,000	400 (1/2 mark)
Materials - the £100 profit element on the materials should be subject to deduction (1/2 mark)	600	20 (1/2 mark)
VAT - VAT is excluded from CIS deductions (1/2 mark)	520	0
	3,120	420

The total payable to the subcontractor is therefore £2,700. **(1/2 mark)**

VAT registration

A business will be required to register for VAT if the trader expects that taxable supplies in the next 30 days alone **(1/2 mark)** will exceed the registration limit, which is currently £85,000. **(1/2 mark)**

HMRC must be notified within 30 days of the day on which this expectation arises **(1/2 mark)** and the registration will take effect from the start of the 30 day period. **(1/2 mark)**

VAT invoice

A valid VAT invoice will need to contain the following:

- A sequential identifying invoice number;
- The date of the supply;
- The date when the VAT invoice is being issued;
- The supplier's name, address and VAT registration number;
- The customer's name and address;
- A description sufficient to identify the goods or services being supplied;
- The quantity of goods or the extent of services supplied, the rate of VAT applicable and the amount that is being charged, which is net of VAT;
- The rate of any discount offered per item;
- The total amount being charged, net of VAT;
- Total amount of VAT charged.

(1/2 mark each up to a maximum of 3. Credit will be given for any other relevant point.)