

1. Orchid Ltd is a partially exempt trader. During the quarter ended 31 March 2018 it made the following supplies:

	£
Standard-rated taxable supplies	84,000
Exempt supplies	<u>18,000</u>
	<u>102,000</u>

The input tax for the period is:

	£
Wholly attributable to taxable supplies	4,500
Wholly attributable to exempt supplies	2,700
Non-attributable	<u>3,600</u>
	<u>10,800</u>

**Calculate the input tax recoverable by Orchid Ltd for the quarter ended 31 March 2018.** (4)

2. William has been employed by Gwna Ltd for many years on an annual salary of £70,000. On 1 January 2018 he was made redundant. His redundancy package consisted of:

Statutory redundancy pay of £8,335.

Payment in lieu of notice under his employment contract of £15,000.

Discretionary termination payment for loss of employment of £30,000.

Retention of company car with a market value of £8,000.

**Calculate how much of the redundancy package is taxable as a termination payment and the amount of income tax the employer must deduct from the package.** (3)

3. Sam operates through a personal service company, SB Ltd. During 2017/18 SB Ltd entered into a contract with Sunshine plc for consultancy services for £75,000. Sam would have been treated as an employee of Sunshine plc but for the existence of SB Ltd.

During 2017/18 Sam withdrew a salary of £32,000 from SB Ltd on which employer's national insurance of £3,289 was paid. In addition, SB Ltd contributed £5,000 into Sam's personal pension plan and purchased a season ticket for £1,500 to enable Sam to travel between his home and Sunshine plc's premises.

**Calculate the deemed employment payment and employer's National Insurance Contributions due for 2017/18.** (4)

4. Jenny relocated from Newcastle to Manchester for a senior management position. She was reimbursed the following costs by her employer during the tax year:

a) £9,000 estate agent and legal fees relating to the sale of her old home.

b) £3,000 contribution towards her mortgage deposit for the purchase of her new home.

c) 50p per mile for each business mile driven. Jenny uses her own car for business travel and drove 4,000 business miles in 2017/18.

**Explain how each of these expenses will be treated and reported for Income Tax purposes.** (4)

5. Billy Builder Ltd is registered for gross payment under the Construction Industry Scheme.

**Explain what the 'scheduled review' is under the Construction Industry Scheme and outline the matters this review covers.** (3)

6. A new client of yours, a small public sector body working in local government, has been recently established and is about to run its first payroll.

**Briefly explain how the Employment Allowance operates and whether this can be claimed by your client.** (2)

7. **Briefly explain what a Form P45 is, and list four items of information that must be included on the Form P45.** *(The underline is an amendment to the paper that was sat.)* (3)

8. Sally contributes £5,000 per year into her employer's defined contribution pension scheme. Her employer contributes £3,000 directly into her pension scheme.

**Explain how these pension contributions will be treated for Income Tax purposes.** (2)

9. **State the conditions which must be met in order for a VAT registered trader to claim bad debt relief and the time limit for making such a claim.** (3)

10. Oops Ltd pays its employees once each month on the 20<sup>th</sup> of the month. Oops Ltd's Full Payment Submission in respect of the salaries paid in May was submitted on 30 June. The Full Payment Submission in respect of the salaries paid in June 2018 was submitted on 3 October 2018. All other Full Payment Submissions during the tax year were made on time.

At the start of the tax year Oops Ltd had 45 employees and from 1 July 2018 employed a further 5 employees. Each month, Oops Ltd remits £50,000 of PAYE tax and National Insurance Contributions to HM Revenue & Customs.

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

11. **State the VAT liability of the following goods / services:**

- 1) Smoking cessation products
- 2) Construction of a residential building
- 3) Adults' clothing
- 4) Bread
- 5) Burial and cremation services
- 6) Insurance

(3)

12. Matt has a Plan 2 student loan. His employer pays him monthly, at the end of each month. At the start of 2017/18 his annual salary was £18,000. In July 2017 he received a bonus of £2,000. With effect from 1 August 2017 he received a £6,000 pay rise.

**Calculate Matt's student loan deductions for the 2017/18 tax year.** (3)

13. Mavis is 35 years old and is employed as a director at Marigold Ltd on a salary of £1,160 per month. In June 2017, Marigold Ltd paid Mavis a bonus of £10,000 in addition to her monthly salary. By the end of month 11 of 2017/18, Marigold Ltd had deducted Director's National Insurance Contributions of £1,092.60 in total from Mavis's earnings.

**Calculate the Director's Class 1 primary National Insurance Contributions for Mavis that are payable in month 12 of 2017/18.** (2)



## November 2018 Examination

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### PAPER 3 PART II

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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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- 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 in practice and your firm acts for Snap Ltd. Snap Ltd is a VAT registered trader which sells clothing and also provides a design service. The Managing Director has recently written to your firm asking for some advice.

Overseas transactions

We have just had two orders from overseas customers and we are unsure whether we should charge them VAT. The details are:

15 July 2018                      Sale of men's suits to a VAT registered trader in France  
 28 August 2018                  Design advice to a non VAT registered individual in Spain

Time of supply

We have a number of customers who purchase goods from us and pay a deposit in advance. We also have some customers who buy goods on credit from us and only pay for the goods after they have been delivered. We always seem to have problems identifying when goods are supplied for VAT purposes and need to fully understand the rules so we can keep accurate records.

Could you please explain the rules and also confirm the specific treatment of these two transactions:

- (a) A customer ordered a bespoke men's suit on 1 August. The suit was collected by the customer on 1 September. We issued an invoice for the suit on 8 September which was paid by the customer on 18 September.
- (b) A customer ordered a dress on 1 September and paid a 20% deposit at the time of order. The customer collected the dress on 1 October. An invoice was issued on 18 October and the customer paid the invoice on 20 October.

Late VAT returns

Our Financial Controller has recently left the company and it has become apparent that some VAT returns have been submitted late and outstanding VAT has not been paid. We would like your advice on whether we need to pay a default surcharge. The annual turnover for Snap Ltd is £170,000.

It would be useful if you could outline how any surcharges are calculated and how the default surcharge operates so that we can avoid having to pay any penalties in the future. The details on the submission of returns is outlined below:

<u>VAT quarter ended</u>	<u>VAT due</u>	<u>Date return submitted</u>	<u>Date VAT paid</u>
	£		
30 September 2017	10,000	10 November 2017	20 November 2017
31 December 2017	8,000	6 February 2018	7 February 2018
31 March 2018	18,000	23 May 2018	22 May 2018

VAT accounting

We also need to understand how we reflect sales, purchases and VAT in our accounting records. In the absence of our Financial Controller, are you able to help?

During the quarter ended 30 September 2018 we made the following sales and purchases, all figures are inclusive of VAT:

	£
Standard rate sales	26,400
Reduced rate sales	1,890
Standard rate purchases	12,300
Reduced rate purchases	2,100

*Continued*

*Continuation*

**You are required to write a letter to the Managing Director in which you should:**

- 1) Explain whether the overseas transactions will be subject to UK VAT. (3)**
- 2) Explain how the tax point of a supply of goods is determined and the tax point for the two transactions mentioned. (4)**
- 3) Outline how the default surcharge regime operates and calculate the surcharge due for the quarters ended 30 September 2017 to 31 March 2018. (5)**
- 4) Show the entries in the VAT control "T account" for the sales and purchases in the quarter ended 30 September 2018 and the amount payable to HM Revenue & Customs. (3)**

Total (15)

2. Bond Ltd employed a new Chief Executive, Money penny. She was provided with the following benefits:

Company car

The company car was delivered to Money penny on 6 June 2017. It has a list price of £80,000 and CO<sub>2</sub> emissions of 200g/km. An enhanced sound system was fitted after the car's delivery and paid for by the company at a cost of £500. Money penny paid £6,000 as a capital contribution towards the car and a private use contribution of £1,000 for 2017/18. Bond Ltd does not provide fuel for private use.

Use of private jet

The company agreed to let Money penny use its private jet for a short holiday break. The market value of the jet is currently £3.5m and the jet was made available for three days. The company also met the cost of fuel and temporary airline staff costs for flying the jet, totalling £1,000.

Neither of these benefits has been payrolled.

Money penny has raised concerns about some of the management team. She would prefer to dismiss these employees but she has concerns that some employees could claim unfair dismissal.

**You are required to:**

- 1) Calculate the amount subject to Income Tax in respect of each benefit provided to Money penny during 2017/18. Workings relating to the private jet should be to the nearest day. (6)**
- 2) State the type of National Insurance Contributions payable in respect of the benefits provided and by when this must be paid to HM Revenue & Customs. (1)**
- 3) State which forms should be provided to both Money penny and HM Revenue & Customs in respect of the benefits provided to Money penny, and by when they should be provided. (3)**
- 4) Briefly explain what unfair dismissal is, and state four automatically unfair reasons for dismissal. (5)**

Total (15)

3. One of your clients has secured a large amount of investment capital and has started their own retail business. Your client has the following queries:

Share schemes

We are considering introducing either a Save As You Earn or an Enterprise (the underline is an amendment to the paper that was sat) Management Incentives share scheme. Please could you outline the Income Tax implications of the grant and exercise of shares under both schemes, including when shares are offered at a discount, and how Income Tax will be payable?

VAT

The business will sell a mixture of standard rated and reduced rated goods. We will register with HM Revenue & Customs for VAT but have heard that either "apportionment scheme 1" or the "point of sale" scheme will be the most appropriate for our business. Can you please explain if we would be eligible for each of these schemes and how VAT would be calculated under each scheme as they sound quite complicated to administer?

Bonus

One of our employees is performing exceptionally well. They will become entitled to and be paid a bonus on 4 December 2018, but they will also receive their usual regular salary payment on 20 December. Can you explain when the bonus payment should be reported on our Full Payment Submission and when the PAYE deductions in respect of the bonus are due to HM Revenue & Customs?

Apprenticeship Levy

In the tax month ending 5 May our total salary bill was £250,000 and in the following tax month it was £270,000. Please calculate the apprenticeship levy due for these months so we can understand how the calculation works.

Shared Parental Leave

The partner of one of our employees is about to go back to work after 20 weeks of maternity leave. Both partners are eligible for shared parental leave and pay. Our employee has asked us to explain how many weeks' shared parental pay he is eligible for, and for how long can he take shared parental leave? He has not yet taken any shared parental leave.

**You are required to draft notes in advance of your meeting. Marks will be awarded as follows:**

1) Share schemes	(6)
2) VAT	(6)
3) Bonus	(3)
4) Apprenticeship Levy	(3)
5) Shared Parental Pay and leave	(2)
	Total (20)

4. You are a tax adviser in practice and your firm has recently acquired a new client; Blossom plc.

Blossom plc has a head office in London and manufacturing plants worldwide. Employees from the non EU country of Zoltar are due to be seconded to the UK for 18 months for training. Your firm has been asked to give a presentation to the board of directors on the implications of the secondment for UK tax purposes so they can understand the tax implications for the employees.

Your manager has also asked you to do some research on whether your firm is able to accept commission from a firm of Financial Advisers.

#### Details of secondment

Employees from Zoltar have taken up an 18-month secondment to the UK from 1 October 2017 to 31 March 2019. As the employees will be working full time in the UK during the period, for tax purposes they will be treated as UK residents. During their secondment, the employees will receive a salary from Blossom plc which will be paid into a UK bank account. Prior to the secondment, employment income earned in Zoltar was paid into each employee's bank account in that country.

The employees will return to Zoltar for four days three times per year to visit their families. Blossom plc will pay the cost of the air travel for the employees to fly home to Zoltar.

None of the employees have ever visited the UK for work before and they were all born in Zoltar.

#### Commission

Your firm has recently introduced the board of directors of Blossom plc to a firm of Financial Advisers. As a result, Blossom plc has taken up several investment products and your firm has been given commission by the Financial Advisers for introducing a new client.

#### **You are required to:**

- 1) **Explain how the employees' earnings from Blossom plc will be taxed in the UK, including an explanation of how the remittance basis operates.** (4)
- 2) **Explain if the cost of the air travel paid by Blossom plc will be a taxed as a benefit in kind on the employees.** (1)
- 3) **Briefly explain the concept of domicile and the likely domicile status of the employees.** (2)
- 4) **Explain whether your firm can accept the commission and how this should be dealt with according to the Association of Taxation Technicians' Professional Rules and Practice Guidelines.** (3)

Total (10)