



Practical Tax People
Association of
Taxation Technicians

May 2015 Examination

PAPER 3

Business Compliance

Candidate Script

Part I



QUESTION NO.1.....

CANDIDATE NO. ..

1) Disregard input tax on purchases

Sales

$$62000 + 20\% = 74400$$

$$74400 \times 13\% = 9672$$

VAT due to HMRC is £9,672

2)

Part I

QUESTION NO.2.....

CANDIDATE NO.

Income from Draw Ltd	70,000
Less 5%	(3,500)
	<u>66,500</u>
Less:	
pension contributions	(5,000)
'salary	(15,000)
Employers NIC	
$15,000 - 7956 \times 13.8\%$	(972)
Gross Deemed Employment	45,528
Less employers NIC	
$45,528 \times 13.8 / 113.8$	(5521)
Net Deemed Income	<u>40,007</u>

QUESTION NO. 14

CANDIDATE NO.

6 month notice period
 60,000 p.a. : £5,000 pcm.

Income Tax

PILON 5,000 1 month

Ex Gratia	35,000	Non contract-
statutory	<u>5,000</u>	work
	40,000	
less (30,000	<u>(30,000)</u>	exemption
	10,000	taxable

PILON Taxable and subject to
 class 1 primary and secondary
 contributions

Ex Gratia	35,000
statutory	<u>5,000</u>
less exemption	<u>(30,000)</u>
	10,000

taxable on £10,000 but not
 subject to class 1 NIC

QUESTION NO.5.....

CANDIDATE NO. ..

Payroll Giving Scheme is operated through the PAYE system.

Relief is given at source by the donation being deducted from the salary before PAYE income tax is calculated, thus reducing taxable salary.

Class 1 primary NIC contributions are not however reduced based on the donation.

QUESTION NO. 6

CANDIDATE NO.

Purchase of stock $33,600/6 = £5,600$
Circuit entertaining **BLOCKED**
Staff entertaining $600/6 = £100$
Purchase of car $12,000/6 = £2,000$

Therefore the amount of VAT
Pippa can recover is £7,700
ie $£5,600 + £100 + £2,000$

N.B. The purchase of a car
would also normally be
blocked. However as this is
for business use only then the
input tax can be recovered

QUESTION NO. 7

CANDIDATE NO.

Stephen is not UK Resident, nor is he domiciled in the UK.

He will therefore be taxable on an arising basis.

This means that he will be liable to UK tax on income earned in the United Kingdom.

This would be the one month in November and would have to be apportioned based on the time spent in the UK.

If there is a DTR with Middle East, Stephen ~~can claim for~~ should be able to claim the tax back in his own country.

Part I

QUESTION NO. 8

CANDIDATE NO.

Business travel 200 days
Available for personal 165 days

$$250,000 \times \frac{165}{365} = \text{£}113,014$$

Less reimbursed

30 x £500

(15,000)

Taxable benefit

98,014

Part I



QUESTION NO. 9

CANDIDATE NO. ...

- | | | |
|----|------------------------|-----|
| 1) | Car seats - reduced | 5% |
| 2) | Insurance - exempt | N/A |
| 3) | Newspapers - zero | 0% |
| 4) | Accountancy - standard | 20% |

1) The medical insurance for Darren will be a taxable benefit on him and will be reported on form P11D.

Darren will be taxable at the higher rate of tax on the benefit but not liable to class 1 NIC.

Instead the employer will be liable to class 1A NIC on this benefit.

The reimbursement of accommodation and subsistence will also need to be reported on form P11D as a taxable benefit on Darren. However as this is business related, Darren can claim the benefit as an allowable expense on his tax return, thus reducing the taxable amount to nil.

There will be no NIC implications for the employee or employer as this was business related.

2) Reporting date for P11D or P9D is 6 July after the tax year end.

Payment of class 1A NIC is 19 July after tax year end (if paid electronically then 22 July)

Part I



QUESTION NO.10.....

CANDIDATE NO.

Tax on benefits will be due
on 31 January following the
tax year end.



QUESTION NO.11.....

CANDIDATE NO. ...

If form P11D is not filed by the due date of 6 July following the tax year end, there is

- 1) A penalty of up to £300 per P11D.
- 2) A penalty of up to £60 per day thereafter until the form is filed.

Also if deemed negligent or fraudulent, HMRC can impose a penalty of up to £3000 per form.

A trader will have to de-register from VAT if

- 1) He sells his business
- 2) He changes his type of supply to exempt supplies
- 3) The business moves abroad.

Although he could de-register if his taxable ^{annual} supplies were less than £79,000, this isn't compulsory.

QUESTION NO.13.....

CANDIDATE NO.

2014 / 15

Salary p.c.m to 30.9.14
 $16,000 \div 12 = \text{£}1,333 \text{ p.c.m}$

\therefore 1333
(1409)
 negative

Therefore no deductions apply
 up to and including September
 2014

Salary p.c.m to 5.4.15 (from 1/10/14)

$21,000 \div 12 = \text{£}1,750 \text{ p.c.m.}$

\therefore 1750
(1409)
 $341 \times 9\% = \text{£}30.69$

~~£30.69~~

Round down to £30

$\text{£}30 \times 6 \text{ months} = \text{£}180$

Student Loan Deductions £180

Pension contributions

$16,000 \times 5\% = \text{£}800 \div 12 \times 6$
 to 30.9.14 £400

$21,000 \times 5\% = 1050 \div 12 \times 6$
 to 5.4.15 = £525

Pension Contributions = £925

Part I

QUESTION NO.14.....

CANDIDATE NO.

List price £17,000

CO₂ emissions 76g/km (11%)

diesel + 3%

reimbursed 45p per mile

Car benefit

$$17000 \times 14\% = \underline{\underline{£2380}}$$

Class 1A NIC

$$2380 \times 13.8\% = \underline{\underline{£329}}$$

QUESTION NO. 1

CANDIDATE NO.

Employee 1 3 days
Employee 2 over 2 weeks
Employee 3 over 2 weeks
Employee 4 SMP

1) Conditions for SSP

Can be paid for - up to max
26 weeks. ~~per~~

Have to be absent for a
qualifying period

If employees qualify then
weekends are excluded and
the first 3 working days are
not taken into account as these
are considered waiting days.

If the employee is part time
then the waiting days and
qualifying days are
aggregated.

The employee has to be
earning at least the lower
earnings limit for Class 1
National Insurance purposes,
ie £111 per week.

The rate of SSP is £87.55 per
week.



QUESTION NO.1.....

CANDIDATE NO. .

1) Continued.

SSP will be paid to the employee through PAYE. A Full Payment Submission will be submitted on or before each payment is made. The employee will receive form P60 at the tax year end which will include the payments.

2) S.M.P.

An employee must have been employed for at least 6 months prior to the qualifying week. The qualifying week is 15 weeks prior to the due date.

The employee must have earned an average of £132.12 per week for the prior 8 weeks before the qualifying weeks.

The employee must provide the employer with a certificate from either the midwife or doctor, confirming the estimated due date.

QUESTION NO. 1

CANDIDATE NO.

The employee must notify the employer 28 days before, in writing, the maternity leave will commence.

SMP can be paid for up to 39 weeks, as follows: -

First 6 weeks 90% average ^{weekly} earnings
Remaining weeks

Lower of 90% average ^{weekly} earnings
and
£138.18 per week.

Again this will be paid through the payroll via PAYE.

A Full payment submission will be completed on or before each payment is made.

3) Records to keep by Employer

- 1) Maternity form (MAT 1?) stating the estimated due date
- 2) Any doctors notes re SSP
- 3) EPS reports issued to HMRC showing all payments made
- 4) Records should be retained for 6 years from the year the SMP or SSP was made

QUESTION NO.2.....

CANDIDATE NO. .

1) Elbia Ltd.

This test would be passed if the total input tax is less than £625 per calendar month, which it does.

However we need to know whether the input tax on exempt supplies was less than 50% of the total input tax. If it is then all input tax will be recoverable.

2) Straight away, you can see that simplified tests 1 and 2 will not apply.

This is because the amounts of input tax ~~exceed~~ exceed £625 per month.

Therefore need to apply the de-minimis test.

P.T.O

QUESTION NO. ... 2

CANDIDATE NO. ...

2. Continued.

Hogamead Ltd.
year ended 31 March 2015

Standard Rated	Exempt
100,000	52,500
33,000	8,300
11,290	

$$\frac{100,000}{152,500} \times 100 = 66\%$$

Input tax recoverable therefore

$$11,290 \times 66\% = \underline{7,451}$$

plus $\underline{33,000}$

$$40,451$$

Input tax irrecoverable

$$11,290 - 7,451 = \underline{3,839}$$

plus $\underline{8,300}$

$$12,139$$

Irrecoverable $12,139 \div 12 = \underline{1,011}$

∴ more than £625 pcm.

Therefore only £40,451 recoverable.

As £52,500 was recovered
£11,139 needs to be paid to
HMRC (£52,500 - 40,451).

3) The turnover limit for joining the flat rate scheme is £150,000.

It does not cease to be eligible if the total value of income in the period of one year then beginning will not exceed £191,500.

Turnover for this purpose is taxable supplies, i.e. zero, reduced and standard.

4) Conditions of VAT Group Registration:

- 1) Must be UK based
- 2) Must have more than 50% share capital in the main company.
- 3) Members of the group disregard any supply of goods or services by a member of a group to another member of a group shall be disregarded.
- 4) Any supply of goods or services by or to a member shall be treated as a supply by or to a representative member.
- 5) A company shall be void as the representative member for the whole group.
- 6) All members of the group shall be jointly and severally liable for any VAT due from the representative member.

4) continued

Optical Group Ltd.

		part of group
Eye Ltd	100%	YES
Brow Ltd	60%	NO
Lashes Ltd	75%	YES
Lens Ltd	45%	NO
Retina Ltd	100%	YES

Brow Ltd doesn't form part of the group as it is non-UK

Lens Ltd doesn't form part of the group as there is less than 50% share capital owned by Optical Ltd.

5) Professional clearance letter must be sent to prior tax advisors

Contract of services must be prepared, enclosing covering letter, schedules, showing work to be dealt with as part of the engagement, schedules showing legal procedures of engagement.

Form 64-8 (SA if not self-assessment) prepared, signed and submitted to HMRC

Money laundering regulations on client checked fully.

Part II



QUESTION NO. 2

CANDIDATE NO. ..

5
Must check that we have
law expertise to deal with
the requirements of the client

QUESTION NO. 3

CANDIDATE NO.

1) Returns (US 300's) are required on a monthly basis by HMRC.

The forms must be submitted by 19th of each month (22nd if electronically). This is 14 days after the tax month end.

Payments are also due on 19th (22nd if electronically) of each month.

Penalties for late returns

- 1) Automatic £100
- 2) 2 months late £200
- 3) 6 months late, the greater of £300 and 5% of the liability.

Penalties for late payments

First default doesn't count as default, unless the payment is over 6 months late (5% of tax).

Number of defaults	% of tax
1st, 2nd or 3rd	1% of tax
4th, 5th or 6th	2% of tax
7th, 8th or 9th	3% of tax
10th onwards	4% of tax

~~After 6 months 5% of tax~~

After 12 months 5% of tax

QUESTION NO. 3

CANDIDATE NO.

1 Penalty for late payments

First late payment doesn't count unless payment is more than 6 months old.

No. of defaults	% of tax due
1, 2 + 3	1%
4, 5 + 6	2%
7, 8 + 9	3%
10 onwards	4%

If payment is 6 months old
further 5% on tax due

If payment is 12 months old
further 5% on tax due

- 2) Scheduled reviews are made once a year. If there fail the reviews you are able to appeal this within 30 days of the report. Checks are made on compliance matters such as reporting to HMRC on time, paying tax on time, checking all payments made to S.C.'s to see if payments have been made correctly, and whether you still qualify for gross payment status.

QUESTION NO. 3

CANDIDATE NO. ...

3)	Labour	10,000
	Materials	2,000
	Plant Hire	1,000
	Travel	500
		<u>13,500</u>

less	(2,000) materials
	<u>(1,000) plant hire</u>
	10,500

The amount to pay would be based on tax withheld @ 30% as HMRC cannot verify they are registered with them.

Therefore $10,500 \times 30\%$ needs to be withheld and paid over to HMRC.

\therefore tax @ £ 3,150

4) They will have to reclaim their tax when preparing their self assessment tax return.

You will need to supply them with proof of payment, i.e. payslip.

5) Tests to apply to see if an individual is an employee or self-employed.

- workplace
- Mutualities of obligation
- Any financial risk
- right of substitution
- provision of supplies for work
- any contracts re periods of work
- who controls the individual
- any paid holidays, sick leave
- more than one employer

You need to look at all these above when deciding whether someone is an employee or self-employed.

For statutory key protections of an employee:

- Provide safe working environment
- sick pay
- holiday pay
- period of notice
- legal requirements / protection

QUESTION NO. 4

CANDIDATE NO.

Enterprise Management Incentive

This is not an "all-employee" scheme.

Specific employees/directors can be chosen to be part of this scheme.

If a discount is given on the granting of the options, when the individual comes to exercise his right to acquire the shares (with a 10 years) he will be chargeable to income tax (and national insurance if the shares are readily convertible assets) on the lower of market value @ grant and market value @ exercise less the price paid.

If not offered at a discount there will be no income tax liability on the exercise of the options.

There is no tax on the granting of shares.

QUESTION NO. 4

CANDIDATE NO. ..

SAVE AS YOU EARN

Up to a 20% discount can be given on the purchase price of these shares.

All employees need to be able to participate in a SAYE scheme (apart from a person who ~~does not~~ ^{has} a material interest in the company).

No income tax on grant.

This works differently to other schemes. Basically, individual makes monthly contribution to accumulating savings account (between £10 and £500 per month) pays for 3 or 5 years (7 years also but no bonus).

At the end of this a bonus is paid & then shares are acquired on the amount saved, plus bonus.

There is no tax due on these options, ~~as~~ as they are purchased once they have been ~~been~~ saved up for

Part II



QUESTION NO. 4)

CANDIDATE NO. ..

3) EMI

₹250,000 can be required
(m.v)

SAYE

Depends on the amount saved