



Practical Tax People
Association of
Taxation Technicians

May 2015 Examination

PAPER 3

Business Compliance

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

- 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. You are not permitted to write in the answer folders. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You are provided with two answer folders (one for each part of the paper). You must put your candidate number on the front cover of both folders.
- You must write your answers on the paper provided. Please start each answer on a new sheet of paper and write on one side of the paper only. Put your candidate number at the top of each page and make sure you place your answers in the correct answer folder.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part I

You must use the Part I answer folder.

1. Mabel is registered for VAT under the flat rate scheme. She pays VAT at the rate of 13%. During the quarter ended 31 December 2014, her business had the following transactions:

	£
Purchases	25,000
Sales	62,000

Both figures are VAT exclusive.

- 1) **Calculate the VAT due to HM Revenue & Customs for the quarter ended 31 December 2014.** (1)
 - 2) **Explain the entries needed to record the sales, purchases and VAT in the relevant 'T' accounts.** (3)
2. Derek is the sole director and shareholder of Engineering Ltd. He is paid an annual salary of £15,000 by Engineering Ltd which is taxed via PAYE. Engineering Ltd also makes a pension contribution of £5,000 per annum into Derek's approved pension scheme.

Engineering Ltd has been engaged by the same company, Draw Ltd, for the past two years on a full-time basis. Derek works in the same way as the other employees of Draw Ltd. Draw Ltd pays Engineering Ltd £70,000 per annum.

Calculate Derek's net deemed employment income payment for 2014/15, assuming Engineering Ltd is not able to take advantage of the employment allowance available for National Insurance Contributions purposes. (4)

3. **Briefly explain:**
- 1) **The employment allowance available in respect of National Insurance Contributions.** (1)
 - 2) **How the employment allowance affects the calculation of primary and secondary Class 1 National Insurance Contributions for personal service companies.** (1)
4. John was made redundant after many years' service. His contract of employment stated that he had a right to a six month notice period and that his employer reserved the right to make a payment in lieu of notice. John worked five months of his notice period. At the time he left employment he was earning a salary of £60,000 per annum, paid monthly.

He received the following termination payment:

	£
Statutory redundancy pay	5,000
Ex-gratia payment	35,000

Calculate the amount of the termination payment which will be subjected to Income Tax, clearly explaining your treatment of each item.

(3)

5. Lynn works for Barton & Co. Barton & Co has recently set up a Payroll Giving Scheme for employees. Lynn would like to make monthly donations to a national charity through the scheme.

Explain how the Payroll Giving Scheme operates in respect of employee donations to charity. (2)

6. Pippa runs a VAT registered catering business. During the quarter ended 30 September 2014, the business had the following transactions:

	£
Purchase of stock	33,600
Client entertaining	1,440
Staff entertaining	600
Purchase of a car	12,000

All figures are VAT inclusive. Pippa intends to use the car wholly for business purposes.

Calculate the amount of VAT which Pippa may recover for the quarter ended 30 September 2014. (2)

7. Stephen is resident and domiciled in Middle Earth. His employer, Sauron Inc, is based in Middle Earth and has offices in the UK. Stephen was seconded to work in the UK with the UK team for one month in November 2014. His earnings continued to be paid by Sauron Inc and were fully subjected to tax in Middle Earth. Stephen returned to Middle Earth following completion of the project.

Outline how Stephen's earnings in 2014/15 will be subject to UK Income Tax. (3)

8. Generous Ltd purchased a private jet on 6 April 2014 to allow its directors and employees to undertake business travel. The jet's market value was £1 million and in 2014/15 Generous Ltd paid fees totaling £250,000 relating to the running costs of the jet.

The jet was used for business travel for 200 days in 2014/15. The jet is otherwise available for the chief executive's private use and he used it privately for 30 days during 2014/15. The chief executive reimbursed Generous Ltd £500 per day when using the jet privately.

Calculate the benefit in kind assessable on the chief executive in 2014/15. (3)

9. **State the VAT liability of the following:**

- 1) **Children's car seats.**
- 2) **Insurance services.**

3) Newspapers.

4) Accountancy services. (2)

10. Molly Ltd provided medical insurance to one of its employees, Darren, in 2014/15. The policy is in Molly Ltd's name and Molly Ltd pays the premium. Darren is a higher rate taxpayer.

Molly Ltd also reimburses Darren for accommodation and subsistence costs incurred whilst he is travelling on business. Molly Ltd does not have a dispensation agreed with HM Revenue & Customs.

1) Explain how the benefit and expenses provided to Darren will be reported to HM Revenue & Customs and subjected to National Insurance Contributions. (2)

2) State the due dates for reporting the benefit and expenses and paying the National Insurance Contributions to HM Revenue & Customs. (1)

11. **Explain the penalties which could be imposed by HM Revenue & Customs should employer provided benefits not be reported by the due date. (2)**

12. **Explain the circumstances in which a trader will have to compulsorily deregister for VAT and from what date the deregistration will be effective. (3)**

13. Patrick's salary was £16,000 per annum. On 1 October 2014 he received a pay rise of £5,000 per annum. Throughout the year he made contributions into his employer's occupational pension scheme based on 5% of his salary. Patrick also has a student loan. He is paid monthly.

Calculate the amount of Patrick's pension contributions and student loan deductions for 2014/15. (4)

14. Lisa used her own car for business purposes until 6 April 2014, when she was provided with a company car. The car is leased by her employer at a cost of £500 per month and its list price is £17,000. The car has CO₂ emissions of 76 g/km.

Lisa submits monthly expense claims in respect of her business mileage and is reimbursed for the cost of the diesel fuel used at 45p per mile.

Calculate the Class 1A National Insurance Contributions payable in respect of Lisa's benefits in 2014/15. (3)

Place your answers for Part I in the Part I answer folder.

Part II

You must use the Part II answer folder.

Marks are specifically allocated for appropriate presentation.

1. Crowther Ltd runs a call centre in the North West of England, dealing with customer queries on electrical appliances sold via Crowther Ltd's internet site. Crowther Ltd has grown over recent years and now employs 100 staff, most of whom work full-time.

Over the past two months, Crowther Ltd has had three employees who have had a period of sickness absence. One employee was absent from work for three days, whilst the other two have been absent for over two weeks. In addition, a full time employee is pregnant and will be commencing maternity leave very shortly.

As Crowther Ltd is a relatively new company, it is inexperienced in administration and the managing director has asked for your help.

You are required to draft some notes for the managing director which cover the following:

- 1) **The conditions which must be met in order for an employee to be paid statutory sick pay (SSP), together with the rate of SSP and how it will be paid to the employees.** (4)
- 2) **The conditions which must be met in order for an employee to be paid statutory maternity pay (SMP), together with the rate of SMP and how it will be paid to the employees.** (5)
- 3) **The records (including any relevant forms) which Crowther Ltd must keep in relation to both SSP and SMP and how long these records should be retained.** (5)

Total (14)

2. You work in the VAT department for Gimlee & Co Tax Advisers. Your manager has given you details on a number of new clients.

Elfin Ltd

Elfin Ltd made the following supplies in the quarter ended 31 March 2015:

	£
Standard rated supplies (excluding VAT)	32,500
Exempt supplies	<u>20,300</u>
	<u>£52,800</u>

Elfin Ltd's total input tax for the period is £1,267.

Hogsmeade Ltd

Hogsmeade Ltd is partially exempt and has a year ending 31 March 2015. During the year it made the following supplies:

	£
Standard rated supplies (excluding VAT)	100,000
Exempt supplies	<u>52,000</u>
	<u>£152,000</u>

The input tax for the year is:

	£
Wholly attributable to taxable supplies	33,000
Wholly attributable to exempt supplies	8,300
Non-attributable	<u>11,290</u>
	<u>£52,590</u>

During the year ending 31 March 2015, Hogsmeade Ltd recovered all of the input tax of £52,590 because it was de minimis in the year ended 31 March 2014.

Katherine Stanmore

Katherine runs a business supplying gifts and jewellery from a small shop. She is interested in registering for the flat rate scheme for VAT but does not know if she is eligible to join.

Optical Ltd group

Optical Ltd makes standard rated supplies and owns the following shareholdings in other companies:

- (a) 100% of Eye Ltd which makes standard rated supplies.
- (b) 60% of Brow Inc. which makes standard rated supplies but is incorporated in and managed from the non-EU country of Gondor.
- (c) 75% of Lashes Ltd which makes zero-rated supplies.
- (d) 45% of Lens Ltd which makes exempt supplies.
- (e) 100% of Retina Ltd which makes zero-rated supplies.

Continued

2. *Continuation*

You are required to draft some notes for your manager which include the following:

- 1) An explanation, including calculations, of whether Elfin Ltd passes simplified Test One and the amount of input tax recoverable. (2)**
- 2) An explanation, including calculations, of whether Hogsmeade Ltd can use either of the simplified partial exemption tests, whether it is de minimis for the year ended 31 March 2015 and whether any input tax is repayable. (7)**
- 3) The turnover limit for joining the flat rate scheme for VAT, including a brief definition of turnover for this purpose. (2)**
- 4) The conditions, operation and benefits of VAT group registration and an explanation of which members of the Optical Ltd group could form part of the VAT group. (5)**
- 5) The procedures which must be undertaken according to the Association of Taxation Technicians' Professional Rules and Practice Guidelines once a firm has decided to accept a new client. (3)**

Total (19)

3. The new financial controller at Harrison Ltd, a small building company, has sent you the following email in advance of your meeting next week:

As you know, I have only recently joined the company and I am completely new to the Construction Industry Scheme. I believe that we are considered a mainstream contractor and we also currently hold gross payment status as a subcontractor.

Returns

I am very keen to ensure that I don't miss any deadlines under the Construction Industry Scheme. In our meeting, please could you outline what returns and statements need to be made by contractors within the Construction Industry Scheme, and the associated due dates along with any penalties for late submission?

Gross payment status

I have been told by the finance director that it is very important we retain gross payment status under the Construction Industry Scheme. I believe that HM Revenue & Customs carry out a "scheduled review" of all gross paid subcontractors and would be grateful if you could explain when these reviews are carried out, what is checked during the review, and what happens should Harrison Ltd fail the scheduled review.

Calculation of deduction due

We have recently tried to verify one of our subcontractors with HM Revenue & Customs. This subcontractor is a small limited company but HM Revenue & Customs cannot match it to their records. The subcontractor has sent us the following invoice and I would be grateful if you could calculate the amount we will need to pay them:

	£
Labour	10,000
Materials	2,000
Plant hired from third party	1,000
Travel expenses	500
	<u>£13,500</u>

Reclaim of overpaid tax under the Construction Industry Scheme

I expect that the subcontractor may complain that we have deducted tax from their invoice. Please could you briefly explain how companies can reclaim tax which has been deducted under the Construction Industry Scheme?

Worker status and statutory protections

Finally, we have been assessing the employment status of some subcontractors engaged as sole traders. We are confident that they are not employees, but the finance director has asked me to consider whether they could be classed as "workers" as apparently workers have certain rights under employment law that self-employed individuals do not have. Please could you briefly explain what a "worker" is from an employment law perspective and some of the key statutory protections and benefits that they are entitled to?

Continued

3. *Continuation*

You are required to draft answers to each of your client's questions in preparation for your meeting. Marks will be awarded as follows:

- 1) **Returns and statements due from contractors under the Construction Industry Scheme, including due dates and associated penalties for late submission.** (5)
- 2) **Scheduled review.** (2)
- 3) **Payment of the subcontractor's invoice.** (3)
- 4) **Reclaim of overpaid tax from HM Revenue & Customs.** (1)
- 5) **Worker status, statutory protections and benefits.** (4)

Total (15)

4. Wolf Ltd is a small fast growing company. The directors have ambitious expansion plans and may consider selling the company in the next few years.

Wolf Ltd is considering introducing either an Enterprise Management Incentives scheme or a Save As You Earn option scheme. Wolf Ltd currently meets the eligibility criteria for both schemes.

The directors are comparing the key features of both schemes and would like to have a high level understanding of the following points:

- (a) Whether it is a requirement of either scheme that all employees need to participate;
- (b) Whether it is possible to give discounts on the purchase price of the share options;
- (c) Whether any Income Tax is due on the exercise of options under the schemes. The directors do not at this stage need to understand how any Income Tax due at exercise would be calculated; and
- (d) What registrations or approvals are required from HM Revenue & Customs to set up these schemes.

The directors would also like you to outline the key steps in allotting shares in a private limited company.

You are required to draft a response to each of the directors' questions. Marks will be awarded as follows:

- 1) Enterprise Management Incentives scheme. (4)**
- 2) Save As You Earn option scheme. (4)**
- 3) Procedure for allotment of shares. (4)**

Total (12)

Place your answers for Part II in the Part II answer folder.