



Practical Tax People  

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Association of  
Taxation Technicians

# May 2015 Examination

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## PAPER 3

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### Business Compliance

Part I Suggested Solutions

1.

The amount payable to HMRC will be  $\text{£}62,000 \times 120\% = \text{£}74,400 \times 13\% = \text{£}9,672$ . (1 mark)

The sales account will be credited with the gross amount less the flat rate percentage, i.e.  $\text{£}74,400 - \text{£}9,672 = \text{£}64,728$ . (1 mark)

The purchases will be debited to the purchases account at their gross amount of  $\text{£}30,000$  as the input tax is not recoverable. (1 mark)

The VAT control account will be credited with the  $\text{£}9,672$  payable to HMRC. (1 mark)

*Note - Full credit will also be given to candidates who answer this question by including all T Accounts for sales, purchase and VAT control accounts.*

2.

	£	
Income from relevant engagements	70,000	
Less 5% automatic deduction	<u>(3,500)</u>	(1/2 mark)
	66,500	
Less: Employer pension contributions	(5,000)	(1/2 mark)
Less: Employer NIC on salary ( $15,000 - 7,956 \times 13.8\%$ )	(972)	(1 mark)
Less: Salary	<u>(15,000)</u>	(1/2 mark)
Gross deemed payment	45,528	
Less: Employer NIC on gross payment ( $\text{£}45,528 \times 13.8/113.8$ )	<u>(5,521)</u>	(1 mark)
Net deemed payment	<u>40,007</u>	(1/2 mark)

3.

The employment allowance enables employers to deduct a maximum of  $\text{£}2,000$  per tax year (1/2 mark) from secondary Class 1 NIC contributions. (1/2 mark).

1 mark

For personal service companies, the allowance can only be deducted from the secondary Class 1 NIC payable on actual salary payments. (1/2 mark). It cannot be deducted from NIC due on the deemed payment (1/2 mark) or from primary Class 1 contributions. (1/2 mark)

Max 1 mark

4.

	£	
Statutory redundancy pay Subject to tax under s401 and eligible for the $\text{£}30,000$ exemption, leaving $\text{£}25,000$	-	(1 mark)
1 month contractual PILON: $\text{£}60,000/12 \times 1$ month taxable in full as earnings	5,000	(1 mark)
Ex-gratia payment: $\text{£}35,000$ , less $\text{£}5,000$ treated as contractual PILON = $\text{£}30,000$ , less $\text{£}25,000$ being the remaining $\text{£}30,000$ exemption	5,000	(1 mark)
Total subject to tax	<u>10,000</u>	

*Note – candidates who assumed the PILON was in addition to the ex-gratia payment received equal credit.*

5.

If the employer runs a payroll giving scheme, an employee can donate straight from their wages before tax is deducted from their income. (1 mark)

However, National insurance contributions are calculated based on gross salary before the donation is deducted. (1 mark)

The employer passes the amount withheld to the HMRC approved payroll giving agency within 14 days of the end of the tax month. The agency passes it on to the charity. (1 mark).

Max 2 marks

6.

VAT on purchases is recoverable ( $£33,600 \times 1/6$ ) = £5,600 (1/2 mark)

VAT on client entertaining is blocked (1/2 mark) unless it relates to overseas clients.

VAT on staff entertaining is recoverable ( $£600 \times 1/6$ ) = £100 (1/2 mark)

VAT on car cannot be recovered. Even though it is intended to be used wholly for business purposes, it remains available for private use (1/2 mark)

Total VAT recoverable = £5,700

*Note – candidates are not required to provide explanations.*

7.

Stephen has performed employment duties in the UK. Earnings relating to UK duties should be subject to UK income tax (1/2 mark) via PAYE (1/2 mark).

Earnings relating to his employment duties carried out in Middle Earth are not subject to UK income tax. (1 mark).

His earnings will therefore need to be apportioned between his UK and non-UK duties i.e. one month's worth of his earnings will be subject to UK tax. (1 mark).

*Note - Credit of up to one mark will be given for candidates observing that the UK company could apply for an EP Appendix 4 agreement (Short Term Business Visitors Agreement) such that the UK company would not need to operate tax withholding in respect of Stephen's earnings. Credit will also be given to other relevant points such as treaty relief.*

3 marks total

8.

	£	
Annual value of the jet ( $£1,000,000 \times 20\%$ )	200,000	(1/2 mark)
Additional expenses	<u>250,000</u>	(1/2 mark)
Total benefit	450,000	
Less proportion for business use ( $(200/365) \times 450,000$ )	<u>(246,575)</u>	(1 mark)
Benefit after apportionment	203,425	
No further apportionment as benefit based on availability rather than actual private use		
Less amount made good for private use ( $£500 \times 30$ )	<u>(15,000)</u>	(1/2 mark)
Total subject to tax as a benefit in kind	<u>188,425</u>	(1/2 mark)

9.

Children's car seats are reduced rate, so VAT is charged at 5% (1/2 mark)

Insurance services are exempt from VAT (1/2 mark)

Newspapers are zero rated (1/2 mark)

Accountancy services are standard rated (1/2 mark)

10.

The medical insurance will be reported on Darren's form P11D (1/2 mark) and will be subjected to Class 1A NIC (1/2 mark). The benefit and NIC should also be reported on Form P11D(b) (1/2 mark).

Business expenses will also need to be reported on Darren's Form P11D, as Molly Ltd does not have a dispensation. (1/2 mark). Genuine business expenses are not subject to NIC (1/2 mark).

Max 2

The filing deadline for both the P11D and P11D(b) is 6 July following the tax year (1/2 mark). The Class 1A NIC in respect of the benefit is due by 19 July (22<sup>nd</sup> if paid electronically). (1/2 mark)

11.

In the event that the P11D is filed late, HMRC can impose an initial penalty of £300 (1/2 mark) and a further penalty of up to £60 per day (1/2 mark).

The penalty for late P11D(b) filing is £100 per every 50 employees (or part of 50) per month or part month. (1 mark)

12.

A trader will be compulsorily deregistered for VAT when he stops making taxable supplies, (1/2 mark) when the business changes status (e.g. from a sole trader to a partnership) (1/2 mark) or when the trade ceases (1/2 mark).

Where deregistration is compulsory, it will take effect from the date the trader ceased to have an entitlement to register, i.e. the date from which trading ceased. (1 mark).

*Correctly omitting information concerning voluntary registration, such as permanent reduction in trade, requesting deregistration at a different date, etc. (1/2 mark)*

13.

Pension contributions:

- $16,000 \times 5\% \times 6/12 = £400$  (1/2 mark)
- $21,000 \times 5\% \times 6/12 = £525$  (1/2 mark)
- Total = £925

Student loan deductions

- Deductions based on salary before pension contributions (1/2 mark)
- $16,000/12 = £1,333$ , below student loan threshold so no deductions payable (1/2 mark)
- $21,000/12 = £1,750$  per month - £1,409 threshold = £341 (1 mark)
- $£341 \times 9\% \times 6$  months = £184 (1 mark)

*Note - Although student loan deductions should be rounded down to the nearest pound, candidates will not be penalised for rounding differences.*

14.

Car

List price £17,000 (1/2 mark) x (11% (1/2 mark) + 3% diesel supplement (1/2 mark)) = £2,380

Fuel

£21,700 x 14% (1 mark) = £3,038

Total benefit in kind = £5,418 x 13.8% Class 1A NIC = £748 (1/2 mark)

*Note - Fuel scale charge applies as reimbursed above HMRC advisory rates therefore private fuel is being reimbursed to Lisa.*