

CIOT - ATT-CTA

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 1**

Answer-to-Question-_1_

To qualify for bad debt relief , the following conditions need to be met:

- Alex would have supplied goods and have accounted for and paid the output tax to HMRC.
- The whole or part of the consideration has been written off in their account as a bad debt, that is there is an entry in the bad debt account).
- The value of the supply being written off is not more than the normal selling price.
- the debt is at least six months old , that is six months have elapsed since the late of the date of the supply and the due date for payment. A claim cannot be made earlier.

Alex can only claim bad debt relief for goods sold on 25 August as six months have elapsed from its due date of payment which is 25 September 2021. The amount of relief that he claim is $(2,280-1500)*1/6= \text{£}130$.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question-_2_

1) An export from the UK would have a UK place of supply for VAT purposes and would be zero-rated, irrespective of the type of goods being sold. Therefore, the export of ladies footwear to Canada, would fall under this condition.

2) Import from China would have the UK would not be the place of supply. Even though this is not a UK place of supply, VAT will be due on the import and it would be Yue's obligation to account for it, The import VAT can be paid on a later date under the deferment scheme. The VAT would be at 20%.

3) VAT for service provided would generally have a UK place of supply if performed in the UK. However, services performed outside the UK is outside the scope of UK VAT. This is overridden where the supply is to a business from another business. Like in this case, the supply is from one business to another, therefore, the supply of VAT is where the recipient belongs, which is Singapore.

4) The general rule for a business to customer supply of services, the place of supply for VAT purposes, is where the supplier belongs. However, since this is a Business to customer for accountancy purposes, and the supply is from the American company to Yue, this is overridden and the place of supply is where the recipient is and hence, the place of supply is would be the UK

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-_3_

1) The CIS deduction is;	
Invoice amount	£2,534
Less: Deduction under CIS	
20%*(1,575+125+32)	£(346)
Amount paid to Jenson	2,188

2) The amounts paid to the sub-contractor and the amount deducted (at 20%, 30%) must be reported to HMRC on a monthly basis using CIS300. It must be submitted on the 19th of each months and no later than 14 days after the end of the months, that is by 22 of March 2022. The penalty for Plumb ltd is the fixed penalty of £100.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question-_4_

1) Under the payroll deduction scheme, Card Ltd enters into an arrangement with HMRC approved payroll giving agency, Mohammad then instructs the employer to deduct a certain amount from their pay each month to be passed on to the chosen charity organisation.

The amount of the authorised deduction is deducted from Mohammad's gross pay for PAYE tax purposes along with the pension contributions made by him.

2) Salary per month (58,000)	£58,000
Less: payroll deduction scheme (58,000*5%)	£(2,900)
Less: pension (58,000*6%)	£(3,480)
Net income for PAYE for the year	£51,620

Class 1 primary NIC for 2021/22	
(50,270-9,568)*12%	£4,884
(51,620-50,270)*2%	£27
Total	£4,911

Class 1 Secondary NIC	
(51,620-8,840)*13.8%	£5,904

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

Personal allowance	£12,570
Less benefits	£ (760)
Net allowances	£11,810

Tax code S1181L

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- 6
Annual salary (4,000*12) £48,000
Add: Bonus £5,000
Total salary £53,000

Primary National insurance contributions (NICs)
(50,270-9,568)*12% £4,884
(53,000-50,270)*2% £55
Total primary NICs £4,939

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question-7
The due date for reporting the car is 28 days of the end of the tax quarter in which the event occurred which is 28 August 2021. The cars would have to be reported on P46(car).

CSOP- Kim would have to report the grant of the shares on the annual return by 6 July following the end of the tax year, which is 6 July 2022.

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question-_8_

Tax month 9- 6 December 2021-5 Janaury 2022.

Paybil $\text{£}6,300,000 \times 0.5\%$
31,500

Less: levy allowance

($9/12 \times 15,000$)

£(11,250)

Amount of levy paid for year to
date

£20,250

Less: levy paid to date

£(14,000)

Apprenticeship levy payable

for tax month 8

£6,250

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9

Pig ltd, should have filed its return 12 months from the end of the accoutin period which is 30 April 2021. However, it filed its return 12 months late. The following penalties apply:

Flat rate penalty.

An immediate £100 flat rate penalty will apply.

This will double to £200 as the return was more than three months late.

This would increase to £500 as this was their third consectutive offense. or (£1000 as the return was more than three months late).

The tax geared penalty would apply as it was filed 18 months after the end of the accounting period, which is calculated as percentage of the amount of corporation tax unpaid 18 months after the end of the accounting period.

Since, the return is not filed within 18 months, the tax geared penalty is 10% of the corporation tax unpaid at the end of the 18-month period.

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question-_10_

Sara would qualify for Statutory Maternity Pay (SMP) as;
She has been employed continuously for a period of 26 weeks
into the qualifying week.
Her average weekly earnings for th eight weeks prioif to the
qualifying week is not less than the lower earning limit of
£120 per week.

-----ANSWER-10-ABOVE-----

The amount subject to income tax is the lower of market value at allocation(or amount used to purchase the shares)£8,100 or the market value at withdrawl which is $(810 \times 7) = £5,670$.

Therefore £5,670 is subject to income tax

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

Answer-to-Question- 12
Frank has 30 days to appeal against any amendments included within a closure notice. 15 May 2022. Frank has until 31 January 2022 to make amendments to his return as he can make changes to his return so long as it is within 12 months of the due date for filing.

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question- 13
Clare is resident in the UK and The workplace of Clare in Denmark, would be temporary workplace as she would be working there for a limited time. The cost of the initial flight for Clare is allowable. Also as she is away for a period of 60 continuous days up to two return journeys for her wife are also allowable and exempt from income tax, where the cost of travelling is reimbursed by her employer. Clare would not be able to claim a deduction on the retail expenses paid by her even though it was not reimbursed by her employer as this is not allowed.

-----ANSWER-13-ABOVE-----

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Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 2**

 -----ANSWER-14-BELOW-----

Answer-to-Question-_14_

Part 1

The current VAT registration threshold is £85,000. Only the standard rated and zero-rated supplies will be included in the taxable turnover calculation.

Therefore, the taxable supplies are £12,540 (10,660+1,880). Under the historic test, the VAT registration threshold will exceed after 7 months (12,540*7)£87,780 is 30 November 2021. Harper must notify HMRC 30 days after the threshold limit has exceeded which is 30 December 2021 and registration will take place from 1 January 2022.

Part 2

The following records must be kept digitally for VAT purposes;

- the business accounting records
- copies of all VAT invoices which have been received by the business
- documentaton relating to imprts and exports.
- credit notes, debit notes and similar documents which evidence changes in the consideration for supplies made or received
- A VAT account.

Part 3

Total supplies: 16,760 (10,660+1,880+4,220)

Using the standard method of partial exemption, apportionment od residual input tax is as follows:

$$[(10,660+1,880)/16,760]*100**1,950. = 75%*1,950 \text{ £1,463}$$

		Taxable supplies £	Exempt supplies £	£
Wholly attributable to				

input tax				
taxable supplies		2,350		
Exempt supplies			1,420	
Non-attributable input tax				
Attributable to taxable supplies (above)		1,463		
Attributable to exempt supplies			487	
Total		3,813	1,907	

Is the total exempt input tax less than or equal to £625 per month on average. $(1,907/3) = £635$. therefore, does not pass the first de minimis test.

Is the total exempt input tax less than 50% of total input tax $= 1907/5720 = 33\%$.

However, since it does not pass the first test, the input tax on exempt supplies is irrecoverable. The amount of VAT that can be recovered is £3,813.

Part 4

		Dr £	Cr £
	For sale		
	Bank ac	16,760	
	To Sales		11,430
	To VAT control account		5,330

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

Part 1

Calculation of overlap profit.

2018/19

1 July 2018-05 April 2019

$155,700 \times 9/18 = \text{£}77,850$

2019/20

12 months to 31 December 2019

1 January 2019-31 December 2019

$155,700 \times 12/18 = \text{£}103,800$

2020/21

1 January 2020- 31 December 2020 = $\text{£}92,000$

Overlap profit = $247,700 - (77,850 + 103,800 + 92,000) = \text{£}25,950$

The basis period for the tax year of cessation which is 2021/22 is from the day after the previous basis period ended to the date of cessation which is $\text{£}99,000$ less overlap profit of $25,950 = \text{£}73,050$ is the assessable income for 2021/22.

Income tax

Trading income		£73,050
less: Personal allowance		£(12,570)
Taxable income		£60,480
Tax		
$37,700 \times 20\%$	£7,540	
$(60,480 - 37,700) \times 40\%$	£9,112	
Tax liability	£16,652	

Payment on account to be made on 31 January in the tax year and 31 July following the end of the tax year which is 50% of the previous years income tax for each payment on

account. The balancing payment is made on 31 January following the end of the tax year.

Assuming first 50% payment on 31 January 2022 was made, the second payment on account of 50% of the previous years income tax liability which is $(24,500 \times 50\%)$ £12,250 and the balancing repayment of £7,848 $(24,500 - 16,652)$ is made on 31 January 2023.

Part 2

Calculation of benefits

	£	£	£	£
Barney				
Use of computer				
2019/20 (3,200*20%)		640		
2020/21		640		
2021/22 (3,200*3/12*20%)		160	1,440	
Transfer of computer				
higher of;				
market value when given £1,275				
Market value when originally provided less amounts already charged to income tax $(3,200 - 1,440)$ £1,760			1,760	
Total benefit				3,200
				442
Caroline- car				
List price	39,000			
Benefit %				
$20 + (140 - 75) / 5$	33%			
Benefit *3/12				3,218

total				6,860
Class 1A NIC @13.8%				947

The transfer of the car should be reported on form P45(car) to HMRC by 6 July following the end of the tax year which is 6 July 2022.

The computer transfer to Barney should be reported on form P11D.

Part 3

The pension contributions made by Anish is exempt from income tax as it is a workplace pension scheme. The contributions made by Caroline and Barney would be deduction from the gross pay providing relief when income tax is calculated on their net pay. Both employer and employee contribution in excess of the annual allowance of £40,000 would be subject to the annual charge. Caroline's as she has no unused annual allowance and she is a high income individual she may be subject to the annual charge and will have an annual allowance of £4,000.

Barney however, can rollover his unused annual allowance to the current year and will also have full annual allowance as he is not considered as a high income individual for pension contributions. High income individuals are those whose adjusted income is above £240,000.

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

Part 1

Tony should be treated as an off-payroll worker he personally performs the services and is under the obligation to perform the services for Fun plc.

He provides the service under a contract between him and Fun plc with his company as an intermediary. His contract is also such that he would have otherwise been considered as an employee as he has to perform the services within a certain time and cannot hand over the service to another person like Sue. Fun plc, instructs Tony what he should and should not do and pays Tony a monthly for his services.

These satisfy the rules of off-payroll working based on the following;

- An individual personally performs or is under the obligation to perform, the services for another person.
- the services are not provided under a contract directly between the client and the worker but instead are provided under arrangements involving a third party and
- the circumstances are such that if the services had been provided under a contract directly between the client and the worker, the worker would have been regarded for tax purposes as being an employee of or the holder of an office with the client.

Part 2

Fun plc would be considered large as it has more than 50 employees and annual turnover of more than £10.2 million. The PAYE and NICe implication for Fun plc are if they determine that Tony is an employee, Fun plc will be treated as paying earnings also known as direct deemed payment to Tony when the payment is made to the intermediary (Ant ltd) Fun plc would have to account for PAYE and NIC on these earnings and the net amount would be paid to Ant ltd. Fun plc would also need to provide Form P60 and P45. The new start procedure would have to be followed and the payment would be recorded on the Full Payment Submission (FPS_ when

or before payment are made.

To Ant ltd.; the amount of the direct deemed payment is deducted from income extracted from the Ant ltd to Tonyso as to avoid double taxation. Ant ltd. does not have to operate PAYE/NICs on a salary payment to TOny to the extent that it is covered by the deemed direct payment. Any such employment income paid should be recired on the FPS of the intermediary as non-taxable income and the gross taxable employment incoe reduced by the corresponding amount. The net amount received from Fun plc is not taxable on Ant ltd.

Part 4)

	£	£	£	£
Van (3,500*6/12)		1,750		
Fuel (van) (669*6/12)		335		
Private medical insurance		200		
Workshop		115		
Ttoal		2,400		
Class 1A NIC @13.8%		332		

Cost of course is exempt as it is needed for carrying out her work. The flowers are also exempt.

----- Question 17-----

Bunie ltd

Part 1

Returns are prepared quaterly, the retruns requiried are for the following periods

1 May 2021 to 31 July 2021

W1: amount received from individual for patent royalty is received net of 20% of tax $(4,000 \times 20/80) = \text{£}1,000$
W2: Interest to an individual is paid net of 20 % of tax = $126,000 \times 1/3 \times 20/80 = \text{£}10,500$
Interest paid to companies is not subject to tax.

Part 2

Calculation of corporation tax liability;
Corporation tax liability $= \text{£}266,000 \times 19\% = \text{£}50,540$.
1st instalment payable on 14 November 2021 $3/8 \times 50540 = \text{£}18,953$
2nd instalment payable on 14 February 2022 $3/8 \times 50540 = \text{£}18,954$
3rd instalment payable on 14 April 2022 $2/8 \times 50540 = \text{£}12,635$

Part 3

The charge is 32.5% of the amount of the loan $(500,000 \times 32.5\%) = \text{£}162,500$.
Amount is lower of;
the outstanding amount on the first day of the accounting period (or
the normal due date
Sanjeev will be treated as receiving a dividend equal to the loan about written off or released.

The charge is payable with the corporation tax liability for the period which is by 14 April 2022.

Part 4

Alison has breached the standards of disclosure and transparency by not disclosing the plan to the directors. SHE has also breached the standard of lawfulness as she

undertook the work without any realistic assessment of the facts and the credible view of the law. SHe also breached the standard of tax planning arrangements by creating, encouranging and promoting tax planning arrangements that is not set out to achieve results according to the intention of the Parliament. Moreover, her action seems to be highly artificial and contrived by seeking to exploit the shortcomings within the relevant legislation to facilitate lower amounts of tax being paid through PAYE for the Directors.