Exam Mode **OPEN LAPTOP + NETWORK**

CIOT - ATT-CTA

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 1**

Answer-to-Question-_1_

Started business on 1 October 2020
Stamp collection is a hobby.
Stamps are exempt from VAT except in some circumstances.
Exempt supplies do not count towards the registration threshold.

For compulsory registration there are two tests which must be considered, the historic test, and the future test.

The VAT registration threshold is £85,000.

Cumulative taxable supplies:

```
    £
8,020
2,600
------
10,620
```

HMRC must be notified within 30 days of exceeding the VAT registration threshold and the business will be registered from and VAT charged from the start of the following month. With the information provided it appears as though Hassan may exceed the threshold approximately 8 months from starting the business i.e. the end of May in which case they will be registered and VAT should be charged from the 1st of April 2021.

The future test looks at the next 30 days alone, if the registration limit is exceeded HMRC must be notified before that 30-day period expires. In this case it appears unlikely that Hassan will exceed the threshold in the next 30 days.

Traders who make zero-rated supplies may request to be exempt from registration.

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

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

Answer-to-Question-_2_


Mandrake Ltd
                            £                £
£
                    Taxable Supplies    Exempt Supplies
Total
Directly Attributable
Taxable Supplies        12,000
12,000
Exempt Supplies                                 4,250
16,250

Unattributable (Residual)
Taxable supplies (excl VAT) £295,000
--------------------------------
Total Supplies (excl VAT) £347,000

= 85.01 %(rounded to 86%)

86% x £18,000 = £15,480 recoverable
£2,520 not recoverable.

De Minimis Test
£4250 + £2,520 = £6,770 / 12 = £564.17

This is below the £625 and therefore means that all input
tax can be recovered.

Full £18,000 + £12,000 + £4250 can be recovered = £34,250




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

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

Answer-to-Question-_3_

Short term business visitors are individuals who are not resident in the UK for tax purposes, but who make business trips to the UK which equate to a workday limit of 30 days or less in a given tax year.

The conditions of a short term visitor agreement is that;
- The individual must be resident in a country with which the UK has a DTA
- The individual must be working for a UK Company or UK branch of an overseas company but remain an employee of the overseas company,
- The individual is expected to stay 183 days or less in any 12 month period
- The UK company / branch must not ultimately bear the cost of the employment - including paying for travel/subsistence while they are in the UK.

If the individual overstats they will be subject to UK taxes on the income from the day they arrived. If they respect the conditions however the employer can apply to HMRC to not operate PAYE on the earnings of the visitor in this case Diego.

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

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

Answer-to-Question-_4_

Mabel starting trading 1 October 2016.
Made accounts to 30 June each year.
Business ceased on 30 April 2020.
Taxable trading profits for 10 month period to cessation was £45,000

Current year basis applies up to and including the penultimate tax year of trading. The basis period for the tax year of cessation is from the day after the previous basis period ended, to the day of cessation. In this case 30 June 2019 to 30 April 2020.

From these profits we deduct any overlap relief to arrive at the taxable trading income of the final tax year of trade.

First Year (16/17) = date trade started to following 5 April
1 October 2016 to 5 April 2017 = £28,000 / 9 x 6 = 18,667

Second year (17/18)= Is there an accounting period ending in the 2nd tax year? Yes, 9 months long. Which means we take the first 12 months of trading = £28,000 + (3/12 x £36,000) = £37,000

Third year (18/19) = CYB = £ 36,000

19/20 = £42,000

Overlap profits = 9 months = £18,667

Taxable trading income for final tax year of trade =
£45,000
Less (£18,667)
Total = £ 26,333

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

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

Answer-to-Question-_5_

Services are being imported from Mexico (outside of the EU) to the UK for a fee of £100,000 from Alberto.

This appears to be a B2B transaction of services which means that the services are treated as being supplied in the country in which the recipient belongs i.e. Quirrell Ltd, UK.

This means that there will likely be a reverse charge obligation whereby the UK customer adds the appropriate output tax to their own VAT return and can recover that amount as input tax, in this case standard rate of 20% applied to £100,000 = £20,000.

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

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

Answer-to-Question-_6_

Cement Ltd needs to provide HMRC with the following information in order to verify its sub-contractors (SC):
- Company Unique Tax Reference (UTR)
- Reference number for company HMRC accounts office.
- HMRC Employer reference
- Sub-contractor's UTR,
- SC National insurance number
- SC company name/UTR/reg number if a ltd company
- Nominated partner details/trading name/partnership UTR if they are a partnership.

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

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

Answer-to-Question-_7_

The conditions which must be met for Kasia to qualify for a tax-free childcare scheme is as follows:

- Household income should be below £40,000
- Person opening account must be in paid work in order to qualify and meet a minimum earnings requirement of 16 hours at national living wage (or national minimum wage if under 25). If adjusted net income exceeds £100,000 per annum, the person is not eligible for the scheme.

If the person reamins a member of their employer's childcare voucher scheme then they will not be eligible to participate in this one. This is also the case is the person is claiming working tax credit, child tax credit, or universal credit.

These rules would also apply to her partner if she is part of a couple.

Only one account can be made for a child. Where a parent has more than one child a separate account must be opened for each child and the child must live with the person opening the account.

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

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

Answer-to-Question-_8_

Joseph and Kiara, started partnership 1 July 2020.
Kiara made capital contribution of £20,000 at the same time.
Joseph received annual salary of £5000
Interest paid on capital of 10% per annum.
Remaining profits shared between both Joseph and Kiara at PSR of 1:2
Tax adjusted trading trofit for year ended 30 June 2021 = £64,000

	£	£	£
Y/E 30/06/2021	Total	Joseph	Kiara
Tax adjusted profit	64,000		
Less Salaries	59,000	5,000	0
Less interest on capital	57,000	0	2,000

Total =	57,000		
PSR 1:2	Nil	19,000	38,000
		------	-------
Tax adjusted profits per partner		24,000	40,000

Basis periods
Opening year = date trade started i.e. 1 July 2020 to 5 April 2021
Second year = yes there is an AP ending in 21/22, 12 months long so we take 12 months to accounting date.

Joseph assessable profits for 20/21 = £24,000 / 12 x 9 = £1,800
Kiara assessable profits for 20/21 = £40,000 / 12 x 9 = £30,000
Basis period being 1st July 2020 to 5 April 2021.

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

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

Answer-to-Question-_9_

penalty of up to 100% of the extra tax due depending on behaviour.

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

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

Answer-to-Question-_10_

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

--------------ANSWER-11-BELOW--------------

Answer-to-Question-_11_

Donated both cash and shares in a quoted company to a registered charity.

Gifts of quoted shares is treated as a deductible payment. Deductible payments are deducted from taxable employment income and/or trading profits to calculate net income.

The amount deductivle from income is the relevant value of the shares gifted. The value is calculated using the market value of the shares at the date of the gift plus any costs associated.

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

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

Answer-to-Question-_12_

The options must be eercised within 10 years of the grant - which they are.

No tax charge on grant of the options.

Only a tax charge on the exercise of the option within 10 years if the option was granted at a discount, and it is the discount that is taxed.

Income tax on exercise (if discount at grant)
lower of; market value of shares at grant = 12 x 1000 = £12,000
and market value of shares at exercise = 30 x 1000 = £30,000

= 12,000

Less Cost = £9 x 1000 = (£9,000)

Employment Income = £3,000

Not quoted shares so there is no charge to NIC's at exercise.

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

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

Answer-to-Question-_13_

If you are a partner you are taxed as an individual and therefore only required to pay NIC class 2 and 4. These are due for payment on 31st January following the end of the tax year in question i.e. 31st January 2022 for tax year ending 5 April 2021.

If Nadia is an employee, she will be liable to pay class 1 primary NIC only.

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

Exam Mode **OPEN LAPTOP + NETWORK**

CIOT - ATT-CTA

Paper: **ATT Paper 3 Business Compliance**

Part/Module: **Part 2**

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

Answer-to-Question-_14_

2) How tax points for VAT on goods and services are determined.

The basic tax point for goods is the date the goods are delivered, made available, or collected.

The basic tax point for services is the date the service is performed (date work completed).

There are 2 overriders however -

The early overrider - where there is a receipt of a payments or a tax invoice is issued on a date before the basic tax point date, in which case the earlier date becomes the actual tax point used.

The later overrider - if an earlier tax point does not apply and an invoice is issued within 14 days after the basic tax point, then the invoice issue date becomes the the tax point.

If deposits are given then the deposit and balance are considered separately and will have their own tax points considered in the normal way.

If services are supplied continuously then the tax point becomes the earlier of the date money is paid, or the date an invoice is issued.

For Chamber Ltd, the relevant tax points for each of the three typical sales for the quarter ended 31 March 2021 are as follows:

1) The tax point for this scenario would be the 2nd of February as the invoice was issued later than 14 days after

the basic tax point.

2) The tax point for this scenario would be the 6th April as the invoice was issued within 14 days of the basic tax point which is a late overrider.

3) The tax point for this scenario is the 30 March 2021 as this was a continuous service meaning that the tax point is the earliest of the date the money is paid, or the date the invoice is issued.

3)

Soft furnishings = standard rated
Wardrobes/Kitchen = zero rated

Output VAT
Total taxable supplies = £28,800 excluding VAT

Input VAT
Directly attributable standard rate = 20% x £3,850 = £770

4)
On a gift of goods input tax is clawed back by way of a deemed supply. This is done by making an output tax charge on the replacement cost of such goods (subject to a £50 excluding VAT business gifts limit).

--------------ANSWER-14-ABOVE--------------

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

Answer-to-Question-_15_

1) Accounting periods for Phoenix Ltd.

The first accounting period (AP) for Phoenix Ltd will be from the date that they started trading i.e. 1 April 2019 to the following 5 April i.e. 5 April 2019. This is in relation to the tax year 18/19.

The second accounting period depends on whether there is an AP ending in the second tax year, which in this case is 19/20. The answer here is no because the first set of accounts was for 18 months ended 30 Sept 2020. This means that the second accounting period should be 6th April 2019 to 5 April 2020.

The third accounting period would usually be current year basis however, as long first accounts were drawn up that did not end until the third tax year i.e. 20/21, the basis period is the 12 months to the accounting date i.e. 30 September 2020.

Going forwards it will operate on current year basis rules in that we tax the profits of the 12 month accounting period ending in the tax year.

2) Filing Corporation Tax Returns
Phoenix Ltd should file its Corporation tax returns (CT600) and financial statements by the later of;

- 12 months after the end of the period of account, or
- 3 months from the receipt of the filing notice.

For a long period of account however, there are two AP'S and two CT600's, but both are due on the same day.

We are told that Phoenix Ltd received anotice from HMRC in

April 2020 which would make the filing deadline June 2020.

The end of the period of account is the 30 September 2020 and so 12 months from that date is the 30 September 2021. As this is later than June 2020 it means that Phoenix should file its corporation tax returns (2) by the 30 September 2021.

3) Student Loan Deductions for Harry and Lee

Deductions for student loans are only made when earnings exceed the specified limits depending on the plan they are on.

Harry is on plan 2 which means that his annual earnings limit is £26,575. As his salary is only £22,000 per annum no deductions should be made.

Lee has two student loans, one is a plan 1 loan and the other is a post-graduate loan. The annual earnings limit for plan 1 loans is £19,390, and the annual earnings limit for postgraduate loans is £21,000. Lee is paid an annual salary of £20,500 meaning that plan 1 deductions should be made, but no deductions should be made in relation to his postgraduate loan at this stage.

The deductions for Lee's plan 1 loan should be made as follows and rounded down to the nearest £.

Earnings for class 1 NIC's = £20,500 / 12 = £1,709 per month
£1,700 - £792 = £917
9 % x £917 = £82.53 (rounded down to £82)

The rate of deductions for plan 2 = 9% of earnings above threshold rounded down to nearest whole pound.

The rate of deductions for postgraduate loans is 6% of earnings above the threshold rounded down to the nearest whole pound.

4) Maternity Pay for Mia

Maternity pay is paid for a maximum of 39 weeks.
The employee receives 90% of average weekly earnings for the first 6 weeks.
For the remaining 33 weeks they receive the lower of;
- 90% of average weekly earnings, or
- £151.20

For the first 6 weeks the employee received 90% of average weekly earnings.

Average weekly earnings = £12,000 / 52 = £230.77
90% = 207.69

As this is above £151.20 she will only be entitled to £151.20 for the remaining 33 weeks.

£207.69 x 6 = £1246.14
£151.20 x 33 = £4,989.60
Total = £6,235.74

--------------ANSWER-15-ABOVE--------------

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

Answer-to-Question-_16_

1) Class 1 B national insurance is payable on benefits included in and tax settled under a PAYE settlement agreement (PSA) at a rate of 13.8%.

The due date for Class 1B NIC's is 22 October following the tax year where payment is made electronically (otherwise 19 October).

Total cost to employer = £10,000
13.8% x £10,000 = £1,380
13.8% x 5,250 = £725

Total NIC Class 1 B due = £2,105

Late payment penalties will depend on the number of defaults made by the company in the tax year.

The first late payment of tax does not count as a default.

2)
Exempt benefits include
- car parking near place of work.

--------------ANSWER-16-ABOVE--------------

--------------ANSWER-17-BELOW--------------

Answer-to-Question-_17_

1 a) The conditions that must be met to qualify for preferential tax treatment as CSOP options are as follows:
- The shares being acquired must be ordinary shares of the employer company.
- The shares are quoted on the stock exchange.
- Part time directors working less than 25 hours per week cannot participate.
- No discount can be given i.e. the option price cannot be less than the market value at the date of the grant.
- The maximum value of shares (valued at date of grant) over which options can be held by each employee is £30,000
- Employees with more than 30% of the shares in a close company can not participate
- Exercise must be made within 3-10 years of the date of grant to benefit from all of the tax advantages.

b) Obligations include not granting the shares at a discount, ensuring that only eligible individuals participate, ensuring that no-one exceeds to £30,000 limit etc...

If these conditions are not met then the scheme will not be tax advantaged.

3) Calculate Tomas's deemed employment payment for 2020/21

£
Income from relevant engagements (invoice to xyz)
60,000
Less 5% automatic deduction
(3,000)
Less expenses paid by employer (
500)

Less employers class 1 sec NIC (£71k - £8,788 x 13.8%)
(8,585)
Less salaries (11 x £1000)
(11,000)
Gross deemed payment =
36,915
Less employers Class 1 A NIC (13.8% x 500)
(69)
Net deemed payment
36,846