November 2021 Examination

PAPER 3

Business Compliance

Part I Suggested Answers

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 as a "hobby" is out of scope for VAT purposes. **(1)**

Therefore, the taxable monthly supplies are £10,620. **(1/2)** Under the historic test the VAT registration threshold will be exceeded after 9 months (£10,620 x 9) = £95,580 which is 30 June 2021.**(1/2)** Hassan must notify HMRC by 30 July 2021 **(1/2)**and registration will take effect from 1 August 2021.**(1/2)**

2.

	Taxable supplies £	Exempt supplies £	Total £
Input tax:			
Directly attributable to taxable supplies	12,000		12,000
Directly attributable to exempt supplies		4,250	4,250
Recoverable percentage = Taxable supplies / total supplies(Note) £281,000 (£295,000-£14,000) = / £333,000 (£347,000-£14,000) = 84.4% round up to 85% **(1)**			
Unattributable input tax:			
Attributable to taxable supplies: £18,000 x 85% **(1/2)**	15,300		15,300
Attributable to exempt supplies = £18,000 x 15% **(1/2)**		2,700	2,700
	27,300	6,950	34,250

Note: The taxable supplies used in the recoverable percentage excludes the sale of the machinery as this is a capital item. **(1)**

The level of input tax relating to exempt supplies is above the de minimis limit and therefore only the input tax in relation to taxable supplies, so £27,300 is recoverable **(1)**

3.

In order for Diego to be treated as a short term business visitor the following conditions must be met:

- Diego must be resident in a country with which the UK has a Double Taxation Agreement **(1/2)**

- Diego must be working for a UK company or a UK branch of an overseas company but remains an employee of an overseas company**(1/2)**
- Diego is expected to stay 183 days or less in any 12 month period **(1/2)**
- The UK company must not ultimately bear the cost of the employment – this includes paying for travel and subsistence expenses while Diego is in the UK **(1/2)**

The implications of meeting the test is that Styal plc can apply to HMRC not to operate PAYE on the earnings of short term business visitors **(1)**

4.

Assessable trading profit

	£
First tax year 16/17 Basis period 1 October 2016 – 5 April 2017 6/9 x £28,000**(1/2)**	18,667
Second tax year 17/18 Basis period 1 October 2016 – 30 September 2017 £28,000 + 3/12 x £36,000 **(1)**	37,000
Third tax year 18/19 Basis period Year ended 30 June 2018 **(1/2)**	36,000
Fourth tax year 19/20 Basis period Year ended 30 June 2019 **(1/2)**	42,000
Final tax year 20/21	
Period to 30 April 2020 **(1/2)**	45,000
Less overlap **(1)**	(27,667)
	17,333

5.

This a B2B service and is a mandatory reverse charge on the UK company. **(1/2)**

Quirrel Ltd has to account for the VAT in its VAT return **(1/2)** as output tax as the place of supply is the UK (where the customer belongs). **(1/2)** It also includes the VAT amount as part of the input tax on its VAT return so the impact is tax neutral. **(1/2)**

6.

In order to verify a subcontractor, Cement Ltd will need the subcontractor's:

- UTR
- National Insurance number if they are a sole trader
- Company name, company UTR and registration number if they are a limited company
- Nominated partner details and partnership UTR if they are a partnership

Cement Ltd will also need its own UTR and employer reference number.

The CIS deduction rates are:

- 20% for registered subcontractors
- 30% for unregistered subcontractors
- 0% if the subcontractor has gross payment status

1.5 marks max for the information and 1.5 marks for the rates of deduction (1/2 each rate)

7.

Kasia must work at least 16 hours per week **(1/2)** at the 'national living wage' **(1/2)**. Her adjusted net income must not exceed £100,000 pa **(1/2)**. Kasia should usually live with her child **(1/2)**. If Kasia has a partner, the partner must also meet these conditions **(1/2)**.

The government contribution is 25% of Kasia's contribution **(1/2),** up to a maximum government contribution of £2,000 pa **(1/2)** or £4,000 pa for a disabled child **(1/2)**.

8.

	Total £	Joseph £	Kiara £
Year ended 30 June 2021			
Salary **(1/2)**	5,000	5,000	
Interest on capital 10% of £20,000 **(1/2)**	2,000		2,000
PSR (1:2) **(1/2)** of 57,000 **(1/2)**	57,000	19,000	38,000
	64,000	24,000	40,000
2020/21 1 July 2020 – 5 April 2021 **(1/2)**			
9/12 × 24,000/40,000 **(1/2)**		£18,000	£30,000

9.

The error is deliberate **(1/2)** but not apparently concealed as no steps appear to have been made to hide the error **(1/2).**

So, the maximum error is 70% **(1/2)** of the unpaid tax of £10,000 ie £7,000 **(1/2)**. But if the company makes a disclosure, this can be reduced to 35% (£3,500) **(1/2)** as likely to be considered a disclosure prompted by HMRC's visit **(1/2).**

½ mark available instead of last two ½ marks, if deemed 20% penalty as unprompted disclosure.

10.

	£	£	
January 2021 salary – fully taxable		5,000	**(1/2)**
PILON – fully taxable		10,000	**(1/2)**
Statutory redundancy payment – exempt (within £30,000)		-	**(1/2)**
Additional termination payment:			
PENP (W) – fully taxable		15,000	**(1/2)**
Remaining amount (43,200 – 15,000) – partially taxable	28,200		
Less (30,000 **(1/2)** – statutory redundancy of £4,800 **(1/2)**)	(25,200)		
		3,000	
Taxable employment income		£33,000	

Working PENP

$$\frac{BP \times D}{P} - T$$

= £5,000 × 5 months **(1/2)** - £10,000 **(1/2)** = £15,000

11.

The cash amount is grossed up by 100/80 **(1/2)** and increases her basic rate and higher rate limits **(1/2)**.

The market value of the quoted shares **(1/2)** is deducted from Lucy's income before it is taxed **(1/2)**.

12.

	£	£
1,000 × lower of: **(1/2)**		
Market value on grant **(1/2)**	12	
Market value on exercise **(1/2)**	30	
		12,000
Less exercise price 1,000 × £9 **(1/2)**		(9,000)
Employment income		3,000

13. **(maximum 3 marks)**

1)

As a partner, Nadia pays Class 2 NIC **(1/2)** on 31 January 2022 **(1/2)**.

She pays Class 4 NIC on her trading profit share **(1/2)** as part of payments on account on 31 January 2021 and 31 July 2021 **(1/2)** and balancing payment on 31 January 2022 **(1/2)**.

2)

As an employee, Nadia suffers Class 1 primary on her salary **(1/2)**, payable monthly by the partnership by 19th (22nd if electronic payments are made) of the following month **(1/2)**, ie from 19 (22) May 2020 to 19 (22) April 2021 **(1/2)**.

November 2021 Examination

PAPER 3

Business Compliance

Part II Suggested Answers

14.

1)

VAT Control T account				
	£			£
		b/f	**(1/2)**	22,000
Purchases **(1/2)**	33,040	Sales	**(1/2)**	28,500
Cash **(1/2)**	28,000	c/f	**(1/2)**	10,540
	61,040			61,040

There will be an opening VAT debtor of £10,540 **(1/2)**

Tutorial note – credit was also given for showing this in the form of journals.

2)

For the supply of goods, the basic tax point is the date the goods are made available or collected. **(1/2)**

For services, the basic tax point is when the services are performed or completed (with the exception of raising the invoice). **(1/2).**

The basic tax point can be overridden by a different date in two situations:

-Where there is a receipt **(1/2)** of a payment on a date before the basic tax point date or when the tax invoice **(1/2)** is issued before the basic tax point date. In these cases, the earlier date becomes the actual tax point. **(1/2)**

-If the basic tax point has not been overridden by an earlier invoice or payment and a tax invoice is issued in the 14 day period after the basic tax point; the invoice date becomes the actual tax point. **(1)**

The actual tax point of the goods dispatched on 2 February 2021 is the despatch date. **(1/2)**

The actual tax point of the goods dispatched on 26 March 2021, is the invoice date of 6 April 2021 as this is within 14 days of the basic tax point. **(1/2)**

The actual tax point of the consultancy services is the date on which payment is received so 30 March 2021 as this is prior to the basic tax point of 31 May being the date the services are completed. **(1/2)**

3)

This is a multiple supply and so an apportionment calculation needs to be performed to split the individual elements of the supply in order to calculate the VAT due.

The total cost of the supply is £19,050.

The zero rated input is £15,200/£19,050 x £28,800 = £22,980 **(1/2)**
The standard rated input is £3,850/£19,050 x £28,800 = £5,820**(1)**

The VAT due is therefore:
£28,800 x 0% = 0 **(1/2)**
£5,820 x 20% = £1,164 **(1)**

4)

Input tax is clawed back on goods that are given away by making an output tax charge on the replacement cost of such goods**. (1)**
It is assumed that Chamber Ltd would have been entitled to reclaim the input tax on these goods.

A gift can be exempt if there is a gift of goods made in the course or furtherance of the business where the cost to the donor is not more than £50 (excluding VAT). Therefore the first gift made will be exempt.**(1)**

No output tax will be due on a series of business gifts provided the total cost of gifts made to the same person does not exceed £50 in any 12 month period. If the £50 is exceeded VAT will be due on all the gifts made in the previous 12 months. **(1)** Therefore the gifts to the second customer will need to have output tax accounted for on them. **(1)**

15.

1) The first accounting periods are as follows:

- 1 March 2019 – 31 March 2019. **(1/2)** This is the date that the company first acquires a chargeable source of income and then commences to trade.**(1/2)** Prior to this date, the creation of a business plan is not classed as being "active" for Corporation Tax purposes.**(1)**
- 1 April 2019 – 31 March 2020. **(1/2)** This is the date that trade commences to the end of the first accounting period. **(1/2)** For Corporation Tax purposes, an accounting period cannot be more than 12 months long.**(1)**
- 1 April 2020 – 30 September 2020. **(1/2)** End of first prior accounting period to the end of the next period of account .**(1/2)**
- 1 October 2020 – 30 September 2021, same as dates of period of account.**(1)**

2) The Corporation Tax returns are due on the later of:

- 12 months after the end of the period of account **(1/2)**
- 3 months from the date a notice is first issued by HMRC.**(1/2)**

As there is a long period of account of 18 months, there are two accounting periods and a Corporation Tax return is required for each accounting period. **(1)** The date of submission of both returns however, relates to the end of the long period of account so due dates for both returns for the first two accounting periods are the same i.e 30 September 2021.**(1/2)**

For the second period of account to 30 September 2021, which is the same as the accounting period, the return will be due by 30 September 2022.**(1/2)**

3)

The threshold for Plan 2 loan deductions is £2,214 per month. (1/2) Although Harry's earnings are £1,833.33 per month(1/2) which is below the threshold; in December his total earnings are £3,333.33. This is above the threshold by £1,119.33 (£3,333.33 - £2,214)(1/2) and therefore a student loan deduction of £1,119.33 x 9% = £100.74 rounded down to £100 must be made by Phoenix Ltd(1/2)

Lee is earning above the Plan 1 threshold but not above the postgraduate threshold of £1,750. This means that he will make repayments towards his Plan 1 loan but not towards his Postgraduate loan. (1)

His annual repayment towards his Plan 1 loan is

(£1,708.33 - £1,615) x 9%. = £8.40 rounded down to £8 towards his Plan 1 loan.(1)

4)

Mia will be entitled to the first six weeks of maternity leave pay of 90% of her average weekly earnings **(1/2)** so this will be £230.76 (£12,000/52) x 0.9 = £207.69.**(1/2)**

For the remaining 33 weeks she will be paid £151.20 (as this is lower than 90% of her average weekly earnings). **(1/2).** Any further time off will not be eligible for payment. **(1/2)**

16.

1) Class 1B NIC **(maximum 4 marks)**

Accountancy firm
Address

Sun Ltd
Address

Dear Misha

I address the implications of the benefits provided by the company, including your loan.
(letter format 1 mark)

Class 1B NIC

The Class 1B contributions payable by Sun Ltd are as set out below:

	£	
Cost of party £200 × 50	10,000	**(1/2)**
Income Tax	5,250	
Amount on which NIC charged incl IT	15,250	**(1/2)**
Class 1B NIC at 13.8%	£2,105	**(1/2)**

The Class 1B NIC was due on 22 October 2021 (or 19 October 2021 if not paid electronically). **(1/2)**

If the contributions are paid on 30 November 2021, this is more than 30 days late **(1/2)** and so a 5% penalty is payable by Sun Ltd **(1/2)**. Interest is payable from the due date **(1/2)**.

2)

Taxable benefits

The amount of your benefits chargeable to Income Tax is as set out below:

	£	
Accommodation:		
Higher of		**(1/2)**
Annual value £16,000 × 3/12 = £4,000		**(1)**
Rent paid £1,500 × 3 = £4,500	4,500	**(1/2)**
Use of furniture £10,000 × 20% × 3/12	500	**(1)**
Loan benefit:		
£50,000 × 9/12 × 2.25%	844	**(1)**
Car parking space – exempt	0	**(1/2)**
Electric charging facilities - exempt	0	**(1/2)**
Taxable amount	£5,844	

3) **(maximum 3 marks)**

Tax implications to Sun Ltd of the loan to you

Class 1A National Insurance Contributions are payable on the loan benefit **(1/2)**.

There will be a s.455 charge on the company **(1/2)** of 32.5% of the loan **(1/2)** because this is a loan to you as a participator (shareholder) of a close company **(1/2)**.

This will be payable on the 1 January 2022 (normal due date for Corporation Tax for the year ended 31 March 2021) **(1/2)**.

Once you repay the loan, Sun Ltd will receive a repayment on 1 January 2024 **(1/2)**.

Credit given if candidates recognise the Class 1A NIC is an allowable trading deduction ***(1/2)***.

4)

Legal requirements re loan to directors (maximum 3 marks)

As you are a director the loan is subject to complex provisions of Companies Act 2006. **(1/2)**

A company is not allowed to make a loan to a director **(1/2)** unless approved by an ordinary resolution of members **(1/2)**.

The loan is not for company business and so there is no exception to this legal requirement **(1/2).**

The loan must be disclosed in Sun Ltd's annual accounts **(1/2)** and the transaction is voidable if the law has been breached **(1/2)**.

You will have to account to the company for any gain you make or indemnify the company for any loss or damage arising from the transaction **(1/2)**.

Yours sincerely

An Adviser

17.

1)

(a) **(maximum 4 marks)**

CSOP conditions met:

The CSOP has been registered with HMRC **(1/2)**.

The options are over ordinary shares in the recipients' employing company **(1/2)**. The shares are of a class listed on a recognised stock exchange (London Stock Exchange) **(1/2)**.

The employment requirement has been met as the options were granted to a full-time director/director working at least 25 hours (Tomas) **(1/2)** and employees (Saj and Rhiannon) working any number of hours **(1/2)**.

The maximum value of the options cannot exceed £30,000 per employee when awarded **(1/2)** – the new employees receive options over shares worth 15,000 × £1.80 = £27,000 each, Tomas received options worth 20,000 × £1.20 = £24,000 **(1/2)**. It is irrelevant that Tomas's options are worth more than £30,000 on exercise **(1/2)**.

Marks allowed above, if only concentrate on the new grant of shares. The company is quoted so the material interest issue is not in point (even if there were sufficient information about percentage shareholdings). When the CSOP was registered the company would have to have certified that this satisfies the conditions (although this is not specifically stated in the information given).

Tomas has exercised his options between three and ten years from the date of grant **(1/2)**.

(b) **(maximum 3 marks)**

XYZ plc should have submitted an annual return for 2020/21 by 6 July 2021 **(1/2)**.

The return must include details sufficient to calculate tax liabilities including Capital Gains Tax for Tomas **(1/2)** including the exercise of options by Tomas during the year **(1/2)** and the grant of options to Saj and Rhiannon during the year **(1/2)** with details including dates, market values and exercise price **(1/2)**.

An automatic penalty of £100 is charged **(1/2)**, plus a further £300 as (at November 2021) the return is now more than three months late **(1/2)**.

2)

PRPG re basis of charge of fees (maximum 4 marks)

Time and expenses **(1/2)** – fee charged on basis of time spent, according to the skill and resources deployed **(1/2)**. Given the deadline for the personal tax return is in less than three months **(1/2)** (ie for urgent deadlines), an enhanced rate may be charged **(1/2)**. The engagement letter should include provision for varying the amount charged for extra work **(1/2)**.

Fixed fee **(1/2)** – based on a clear scope and proper costing of the work within this fixed fee **(1/2)**. The engagement letter should include a variation clause if the arrangement will run for a length of times (eg for repeated years) **(1/2)** to allow additional work to be charged/ cost escalation to be recouped **(1/2)**.

Tutorial note – contingent fees and payment via PII are not appropriate for the regular compliance work agreed for Tomas and TomasCo Ltd.

3)

Deemed salary payment

		£	
Income from relevant engagements		60,000	
Less 5% automatic deduction		(3,000)	
		57,000	**(1/2)**
Less salary and suit benefit	(1,000 × 11) + 500	(11,500)	**(1)**
Less class 1 secondary NIC	(11,000 – (11/12 × 8,788)) × 13.8%	(406)	**(1)**
Less class 1A re suit purchase	500 × 13.8%	(69)	**(1/2)**
Gross deemed payment		45,025	
Employers NIC on gross payment	45,025 × 13.8/113.8	(5,460)	**(1)**
Net deemed payment		39,565	