

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 3 BUSINESS COMPLIANCE

November 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Hassan started a business selling stationery, books and craft material on 1 October 2020. The business is not registered for VAT. He also collects stamps as a hobby, buying and selling them to update his collection.

Details of Hassan's monthly turnover is:

	£
Standard rated supplies	8,020
Zero rated supplies	2,600
Sales of stamps	<u>550</u>
	<u>11,170</u>

Explain when Hassan will exceed the VAT registration threshold, by what date he should notify HMRC and the date from which his business will be registered for VAT. (3)

2. Mandrake Ltd is a VAT registered company. In the quarter to 31 March 2021, its results were:

	£
Taxable supplies (excluding VAT)	295,000
Exempt supplies	52,000
<u>Input tax</u>	
Directly attributable to taxable supplies	12,000
Directly attributable to exempt supplies	4,250
Unattributable input tax	18,000

Taxable supplies include £14,000 (VAT exclusive) relating to the sale of plant and machinery during the quarter.

Calculate the amount of input tax recoverable using the standard method of partial exemption. Ignore the simplified tests for partial exemption. (4)

3. Styal plc operates its business from offices in the UK. It regularly employs non-resident UK individuals on short term contracts.

Diego is resident in Canada and works for a branch of Styal plc in Canada. He will be visiting the UK working for Styal plc for 100 days during 2020/21 on a short-term assignment but will remain an employee of Styal plc's branch in Canada.

Explain the conditions which must be met for Diego to be treated as a short-term business visitor and the tax effect of such treatment for Styal plc. (3)

4. Mabel started trading as a sole trader on 1 October 2016. She made up her accounts to 30 June each year. Her trading results are:

	£
Nine months ended 30 June 2017	28,000
Year ended 30 June 2018	36,000
Year ended 30 June 2019	42,000

Mabel's business ceased on 30 April 2020. Her taxable trading profits for the 10-month period to cessation were £45,000.

Calculate Mabel's assessable profits for each tax year of trade. (4)

5. Quirrell Ltd is a VAT registered business with a head office in London. Alberto is an IT consultant running a VAT registered unincorporated business in Mexico. Alberto will work for Quirrell Ltd on a two-month contract for a fee of £100,000 (VAT exclusive).

Explain how the VAT on the contract will be charged and how it should be reported to HMRC. (2)

6. Cement Ltd is a business specialising in building residential houses and is a mainstream contractor, registered under the construction industry scheme. It uses sub-contractors to carry out work.

Identify the information that Cement Ltd needs to provide to HMRC in order to verify its sub-contractors. State the various CIS rates of deduction depending on the status of the sub-contractors. (3)

7. Kasia, aged 30, is returning to work after maternity leave. She will use a registered childminder to care for her child. She has heard of the Tax-Free Childcare scheme. She plans to pay into an online childcare account, to benefit from government contributions.

State the conditions which must be met for Kasia to qualify for the scheme, and explain the amount of the government contribution that will be added to the account. (4)

8. Joseph and Kiara started trading in partnership on 1 July 2020. Kiara made a capital contribution of £20,000 to the partnership on 1 July 2020. Under the partnership agreement, Joseph receives an annual salary of £5,000 and interest is paid on capital contributions at 10% per annum. The remaining profits are shared between Joseph and Kiara in the ratio 1:2.

The tax-adjusted trading profit of the partnership for the year ended 30 June 2021 was £64,000.

Calculate each partner's assessable profit for 2020/21, stating the basis period. (3)

9. In December 2020, Holiday Ltd gave premium bonds worth £18,000 to employees. The financial controller did not include the bonds on the Full Payment Submission (FPS) as she thought that HMRC would never find out about them. The company did not pay the necessary PAYE and National Insurance Contributions. These unpaid amounts total £10,000.

HMRC is currently undertaking a review of the company's operation of PAYE. The financial controller is now worried that this error on the FPS will be discovered.

Explain, with supporting calculations, the possible penalties for the incorrect FPS if Holiday Ltd discloses the error before HMRC discovers it. (3)

10. Candice left her job at ABC Ltd on 31 January 2021, having received notice of redundancy on 31 December 2020. Her gross monthly salary had been £5,000.

Candice had worked only one month of her contractual notice period of six months. She received payment in lieu of notice (PILON) for a further two months. On 31 January 2021, ABC Ltd paid Candice £63,000 (gross) as follows:

	£
January 2021 salary	5,000
PILON for February and March 2021	10,000
Statutory redundancy payment	4,800
Additional termination payment	<u>43,200</u>
	<u>£63,000</u>

Calculate the total amount chargeable to Income Tax, clearly identifying amounts as fully taxable, partially taxable or exempt. (4)

11. Lucy donated both cash and shares in Precinct plc, a quoted company, to a registered charity on 31 December 2020. Lucy made a gift aid declaration.

Explain how the donations are treated in the calculation of Lucy's Income Tax liability for 2020/21. (2)

12. Floyd works for Dod Ltd. On 1 February 2021, he exercised options over 1,000 ordinary shares. The options had been granted in January 2015 under an Enterprise Management Incentive (EMI) scheme.

	<u>£ per share</u>
Nominal value of shares	1
Exercise price	9
Market value in January 2015	12
Market value in February 2021	30

Calculate, showing full workings, the amount chargeable to Income Tax on the exercise of the options. (2)

13. Lemar and Mona operate a trading partnership. Nadia is the only other individual who works in the business.

Explain, giving due dates in respect of 2020/21, the classes of National Insurance Contributions suffered by Nadia if she is:

- 1) a partner.
- 2) an employee.

(3)

Part II

14. Chamber Ltd is a VAT registered business selling home furnishings. It also provides a design, supply and consultancy service for home improvements.

Quarter ended 31 December 2020

At 1 October 2020, Chamber Ltd had a VAT creditor of £22,000. During the quarter it made VAT inclusive purchases and incurred expenses totalling £198,240 (all standard rated). It made VAT inclusive sales of £171,000 (all standard rated) and paid VAT of £28,000 to HMRC.

Three typical sales

During the quarter ended 31 March 2021, Chamber Ltd made the following sales/provision of services for consultancy.

- 1) Goods were sent out on 2 February 2021. An invoice was issued on 25 February 2021 for £3,000 plus VAT. Payment was received on 18 June 2021.
- 2) Goods were dispatched on 26 March 2021. An invoice was issued on 6 April 2021 for £800 plus VAT. Payment was received on 1 May 2021.
- 3) On 8 March 2021, a contract was entered into with Gravel Ltd for design services relating to a major regeneration of housing throughout the UK. The end date of the contract is 31 May 2021. The full payment of £50,000 plus VAT was received by Chamber Ltd on 30 March 2021. An invoice for the payment was issued on 30 April 2021.

Sale of specialist furniture

Chamber Ltd has agreed to renovate a kitchen and bedroom in a customer's house. This will involve supplying and fitting fitted wardrobes and kitchen units which are zero rated for VAT, as well as soft furnishings which are standard rated. A total cost of £28,800 plus VAT has been agreed with the customer. The cost to Chamber Ltd of the wardrobes and kitchen units is £15,200 (VAT exclusive). The cost of the soft furnishings is £3,850 (VAT exclusive).

Gifts of goods

During the quarter to 31 March 2021, Chamber Ltd has made gifts of goods to potential customers and suppliers to enhance its business as follows:

- 1) A gift to Raven Ltd of home furnishings which cost Chamber Ltd £38 (VAT inclusive) which would normally be sold to customers for £75 plus VAT.
- 2) Five separate gifts of furniture to Harry, a regular customer. Each item of furniture cost £55 (VAT inclusive) and would normally be sold to customers for £90 plus VAT.

Continued

Continuation

Requirements:

- 1) **Show the entries in the VAT control 'T' account for the quarter ended 31 December 2020 stating the opening VAT creditor/debtor for the quarter ending 31 March 2021.** (3)
- 2) **Explain how the tax point for VAT on goods and services is determined and identify the relevant tax points for each of the three typical sales for Chamber Ltd for the quarter ended 31 March 2021.** (5)
- 3) **Calculate the VAT due on the supply of the kitchen and bedroom furniture and the soft furnishings.** (3)
- 4) **Explain the treatment for VAT purposes of the gifts of goods to customers during the quarter ended 31 March 2021.** (4)

Total (15)

15. You are a tax adviser working in practice and Phoenix Ltd is a new client of your firm.

Incorporation and commencement of trade

Phoenix Ltd was incorporated on 1 January 2019. During the first two months after it was incorporated, it drafted a business plan to submit to a bank to gain funding.

On 1 March 2019, Phoenix Ltd deposited money into an investment account which paid interest. It commenced trading on 1 April 2019 and recruited employees on the same date. Phoenix Ltd prepared its first set of accounts for the 18 months ended 30 September 2020 and its second set of accounts for the year ended 30 September 2021. In April 2020, Phoenix Ltd received a notice from HMRC of its obligation to complete a Corporation Tax return.

Employees

Phoenix Ltd recruited two graduates, Harry and Lee, who are paid monthly. In respect of Harry, Phoenix Ltd received the HMRC 'start notice' to begin deducting Plan 2 student loan repayments from 6 April 2020. Harry's salary is £22,000 per annum. During December 2020, a bonus of £1,500 was paid to Harry. Phoenix Ltd was unsure how to deal with the student loan deductions for Harry so asked for your advice.

Lee has completed two university courses over the past 10 years. He has two student loans, one is a Plan 1 loan and one is a postgraduate loan. Lee commenced employment in April 2020. Lee is paid a salary of £20,500 per annum and Phoenix Ltd asked for advice on how the student loan deductions apply to Lee.

Mia, an employee of Phoenix Ltd, is due to have a baby in December 2021. She has worked for Phoenix Ltd since December 2020 on a salary of £12,000 per annum. She plans to take 12 months off following the birth of her child. Phoenix Ltd would like some advice on the level of maternity pay they will need to pay Mia.

Requirements:

- 1) **State and explain the dates of each of the relevant accounting periods of Phoenix Ltd for Corporation Tax purposes.** (6)
- 2) **Explain the dates by which Phoenix Ltd should file its Corporation Tax returns.** (3)
- 3) **Calculate the student loan deductions (if any) that Phoenix Ltd has taken from the payments made to Harry and Lee, including brief explanations on the operation of each student loan repayment scheme.** (4)
- 4) **Advise Phoenix Ltd of the amount of maternity pay Mia is entitled to over the 12-month period.** (2)

Workings should be done to the nearest pence.

Total (15)

16. Sun Ltd is a close company preparing accounts to 31 March. The company does not make instalment payments of Corporation Tax.

One of the shareholders, Misha, is also a director working full time for the company. Sun Ltd and Misha are both clients of your accountancy firm. Misha has asked for your help on several matters concerning benefits, including a loan made to her by the company.

Summer party

Sun Ltd hosted a summer party for its 50 employees in July 2020. The cost incurred by the company was £200 per employee. The company entered into a PAYE settlement agreement (PSA). The total Income Tax payable is £5,250. Sun Ltd has not yet paid the Class 1B National Insurance Contributions for the party. The company intends to make the payment on 30 November 2021.

Benefits to Misha

Misha received several other benefits during 2020/21.

Until 30 June 2020, Misha lived in an apartment provided by the company. Sun Ltd paid rent for the apartment of £1,500 per month, and the apartment had an annual value of £16,000. Sun Ltd had paid £10,000 to furnish the apartment when Misha first moved in, on 1 March 2014.

On 1 July 2020, Sun Ltd made a loan to Misha of £50,000 which she used as a deposit to buy her own house. Misha will not repay the loan until 1 July 2022. Misha does not pay interest on the loan.

After moving house, Misha drove to Sun Ltd's office each day where she has her own parking space. Parking would otherwise have cost Misha £500 in 2020/21.

During the working day, Misha used the company's charging facilities to charge her electric car. This saved her £250 in 2020/21 that she would have had to pay for using public facilities.

Requirements:

Write a letter to Misha, a director of Sun Ltd, in which you:

- 1) Calculate the Class 1B National Insurance Contributions payable for the summer party, and explain the consequences if these are paid on 30 November 2021. (4)**
- 2) Calculate the amount chargeable to Income Tax on Misha's other benefits in 2020/21, clearly indicating any exempt benefits. (5)**
- 3) Explain the tax implications to the company of the loan to Misha, over the period of the loan. Calculations are not required. (3)**
- 4) Explain the legal requirements for the loan made to Misha. (3)**

Total (15)

17. You work for a firm of Chartered Tax Advisers. XYZ plc is one of your clients. XYZ plc is a trading company listed on the London Stock Exchange.

XYZ plc operates a Company Share Option Plan (CSOP) for selected employees.

Option transactions during 2020/21

Tomas worked 40 hours per week as a director of XYZ plc until 30 April 2020. He had CSOP options over 20,000 ordinary shares, granted when the shares were valued at £1.20 per share in March 2016. On 30 April 2020, he exercised his CSOP options. He sold the shares the same day for their market value of £1.80 per share.

On 30 April 2020, two part-time managers, Saj and Rihannon, started work for XYZ plc, each working 20 hours per week. On that date, they were each granted options over 15,000 shares under the CSOP.

The finance director, Joanna, has emailed you:

'I did not tell HMRC about the grant or exercise of these options. As your firm told me when we registered the CSOP scheme in 2016, there is no liability to Income Tax or National Insurance provided we work within the rules. We have kept to the rules, so there is nothing to tell HMRC.'

Tomas' new business

After leaving XYZ plc, Tomas set up his own company on 1 May 2020, TomasCo Ltd. Tomas wants your firm to complete his personal tax return for 2020/21 and the Corporation Tax return for TomasCo Ltd for the period ended 5 April 2021.

Your firm is satisfied that any conflict of interest can be managed and will accept Tomas and TomasCo Ltd as clients. The partner has asked you to summarise the possible bases on which fees could be charged.

TomasCo Ltd has no employees, other than Tomas who is a director. Tomas received a monthly salary of £1,000 (gross) from 1 May 2020. In January 2021, the company also gave Tomas a new suit which cost the company £500.

TomasCo Ltd engaged XYZ plc as a client, invoicing £60,000 to XYZ plc in the period ended 5 April 2021. TomasCo Ltd had no other clients in that period, and is deemed to be a personal service company.

Continued

Continuation

Requirements:

- 1) **In terms of the finance director's comments about the grant and exercise of the CSOP options:**
 - (a) **Explain, from the information available, why she is correct that the conditions have been met for the preferential tax treatment as CSOP options.** (4)
 - (b) **Explain why she is incorrect about disclosure to HMRC, stating the company's obligations and the consequences of not meeting these.** (3)
- 2) **Explain the possible bases on which fees could be charged to Tomas and TomasCo Ltd, applying Professional Rules and Practice Guidelines (PRPG).** (4)
- 3) **Calculate Tomas's deemed employment payment for 2020/21.** (4)

Total (15)