

**THE ASSOCIATION OF  
TAXATION TECHNICIANS**

**ATT PAPER 3 BUSINESS COMPLIANCE**

**May 2024**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Jamala is a digital content consultant, providing consultancy services to businesses for their websites.

Jamala gave Ryan some advice on 2 March 2024. On 18 February 2024, Jamala had raised an invoice for £500 plus VAT. Ryan paid the invoice on 5 March 2024.

**Explain how the basic tax point for services and actual tax point are determined for VAT. State the date of the time of supply for Jamala's advice to Ryan.** (3)

2. Anaconda Ltd is a partially exempt trader. The results for the VAT year ended 31 March 2024 were:

	£
Standard rated supplies (excluding VAT)	1,854,113
Exempt supplies	<u>236,355</u>
Total supplies	<u>2,090,468</u>

Input VAT:

	£
Wholly attributable to taxable supplies	161,059
Wholly attributable to exempt supplies	5,328
Non attributable	<u>9,283</u>
Total	<u>175,670</u>

The input VAT recovered for the VAT year ended 31 March 2024 was £171,437.

**Calculate, with brief explanations, the annual adjustment required for the year ended 31 March 2024.** (4)

3. Violet provides secretarial services to businesses and is registered for VAT under the flat rate scheme. The flat-rate percentage for secretarial services is 13%. During the year ended 31 March 2024, Violet's flat rate turnover was £62,000 and the VAT inclusive expenditure on relevant goods used for the business was £1,200. Violet also bought some stationery for personal use costing £170 plus VAT. Violet completes VAT returns annually to 31 March. She joined the flat rate scheme on 1 February 2019.

Violet has recently obtained some new work for a large multinational firm. She estimates that as a result, her turnover for the year ended 31 March 2025 will increase to £280,000 and will stay at that level.

**Explain why Violet is a limited cost trader, the consequences of being classed as such for VAT purposes, and whether she will be eligible for the flat rate scheme in the future.** (3)

4. Shi Hu is a VAT registered trader and for the quarter ended 31 December 2023 they had an opening VAT debtor of £16,000, standard rated VAT inclusive sales of £201,840 and VAT inclusive purchases of £102,360.

**Show the accounting entries to record the transactions and state the amount of the closing VAT debtor / creditor for the quarter ended 31 December 2023.** (3)

5. Zac is a CIS registered subcontractor (but not for gross payment) and is also registered for VAT. He has recently completed some work for Tulach Ltd, a house builder. The domestic reverse charge does not apply for VAT.

Zac's invoice shows:

	£	£
Labour	720 plus VAT of	144
Materials	250 plus VAT of	50
Travel	<u>65 plus VAT of</u>	<u>13</u>
Total	<u>1,035 plus VAT of</u>	<u>207</u>

**State the figures that Tulach Ltd needs to report to HMRC, the amount of the CIS payment to HMRC and the amount that will be paid to Zac.** (3)

6. Alan lives in England and receives a salary of £77,000 per annum. During 2023/24 he paid a contribution of £5,200 (net) to his personal pension scheme. His employer paid a contribution of £1,800.

**Calculate Alan's Income Tax liability for 2023/24, stating how the employer contribution will be treated.** (3)

7. Maeve stopped trading on 30 November 2023. Her recent trading profits were:

	£
Year ended 30 June 2022	80,000
Year ended 30 June 2023	70,000
Five months ended 30 November 2023	25,000

Maeve had unrelieved overlap profits of £10,000 from when she started trading.

**Calculate Maeve's assessable trading profits for 2023/24, stating the dates of the basis period.** (2)

8. Narkie Ltd paid Shared Parental Pay (ShPP) to an employee, Jeff, on 31 January 2024. The company recovered 92% of the gross ShPP from HMRC, as permitted.

**Explain how Narkie Ltd must report, to HMRC and to Jeff, the Shared Parental Pay and the amount recovered, stating the dates by which such reports must be made.** (3)

9. Rehat received a gross salary of £3,500 per month throughout 2023/24. On her December 2023 payday, she also received a gross bonus of £500.

She repays both a student loan (Plan 2) and a postgraduate loan.

**Calculate Rehat's loan deductions from her December 2023 pay.** (3)

10. Dominic is a director. He received a gross salary of £2,000 for each month of 2023/24 and in March 2024 he received an additional gross bonus of £50,000.

**Calculate Dominic's total Class 1 primary National Insurance Contributions for 2023/24. Use the rates and limits given in the Tax Tables.** (3)

11. Ling is employed by Seewn Ltd. Throughout 2023/24 Ling had a loan from Seewn Ltd of £30,000 on which she paid interest at 1%.

On 6 April 2023 Seewn Ltd gave Ling outright a car which had a market value of £20,000 on that date. Ling had enjoyed private use of the car since 1 July 2022 when its market value was £22,000. She was taxed on a car benefit of £3,630 in 2022/23.

**Calculate the National Insurance Contributions (NIC) payable by Seewn Ltd on Ling's benefits in 2023/24, stating the class of NIC due.** (3)

12. Masive plc engaged Twen Ltd to complete Project A, with the work done by Roger. Roger is a director and the 100% shareholder of Twen Ltd. Masive plc, a large company, determined Roger to be a deemed employee under the off-payroll working legislation.

Twen Ltd raised an invoice to Masive plc for £17,000 for Project A. Twen Ltd paid Roger as much as it could from this project as salary.

Taxes relevant to Project A are:

	£
PAYE	3,400
Class 1 primary National Insurance Contributions (NIC)	633
Class 1 secondary NIC	2,241

**Calculate the amounts paid between Masive plc, Twen Ltd, Roger and HMRC for Project A, clearly naming the entity which paid and the entity which received each payment.**

**Use the tax amounts given in the question. Ignore Corporation Tax and VAT.** (4)

13. Riverz Ltd prepared accounts for the year ended 31 October 2023.

On each of 31 January 2023 and 31 July 2023 the company paid gross interest of £100,000 on debentures. 30% of the debentures were held by individuals, the remainder were held by UK companies.

Riverz Ltd received cash of £20,000 from an individual as a patent royalty on 1 July 2023.

**Calculate the Income Tax payable by Riverz Ltd to HMRC, stating the due dates.** (3)

## PART II

**Presentation skills** – awarded for quality of presentation.

(2 marks)

14. Copter Ltd sells laptops and portable tablet devices. It is a VAT registered company. Copter Ltd is 100% owned by Heli plc, a VAT registered company which makes standard rated supplies. Heli plc also owns 75% of Flight Ltd, which makes wholly exempt supplies. Heli plc has suggested that all three companies form a VAT group. All three companies operate from the UK.

During the quarter ended 31 December 2023 Copter Ltd made gifts of memory sticks to 50 customers. The memory sticks had each cost Copter Ltd £20 plus VAT and it had reclaimed the input VAT. Copter Ltd also gave a laptop to a child of a director (the child does not work for the company). The laptop had cost £890 plus VAT and Copter Ltd claimed the input VAT. The replacement cost of the laptop is also £890.

Copter Ltd recently recruited some new trainees into its finance department. One of the finance managers wishes to give a presentation to the trainees on the requirements of the making tax digital regime and in particular what records must be kept digitally within the “electronic account”.

For the quarter ended 31 March 2024, Copter Ltd had the following results (all figures are VAT exclusive):

	£
Standard rated sales	138,800
Payments:	
Purchases (all standard rated)	58,200
Staff wages	30,000
Bad debt written off (outstanding for nine months)	1,200
Customer entertaining	800

### Requirements:

- 1) **Explain the implications of forming a VAT group and which companies should be in Heli plc’s VAT group.** (4)
- 2) **Explain whether the gifts of the memory sticks and the laptop are deemed supplies, and how the purchase and the gift are treated for VAT purposes.** (4)
- 3) **Explain the records which must be kept digitally within the “electronic account” under making tax digital, for inclusion in the finance manager’s presentation.** (4)
- 4) **Calculate, with explanations, the VAT payable / repayable for the quarter ended 31 March 2024.** (3)

Total (15)

15. Jinga Ltd is a UK trading company and is expanding rapidly. It has an annual paybill of approximately £2.5 million.

In April 2023 its paybill for the month was £291,667. In May 2023, its paybill for the month was £301,200.

It has recently restructured its sales department by recruiting new staff into new posts and making some staff redundant.

#### Aaron

Aaron is 30 years old and started working for Jinga Ltd on 6 April 2021. On joining Jinga Ltd Aaron was granted options over 1,500 shares with an exercise price of £5 per share under an EMI scheme. At the date of grant, the unrestricted market value of the shares was also £5 each. On 12 April 2023, Aaron exercised his options and sold all the shares for £15 each.

#### Hema

Hema is 52 years old and worked for Jinga Ltd for over 20 years. She was paid a salary of £55,000 per annum.

Hema was made redundant and worked her full notice period. She received the following termination award on 5 April 2024:

	£
Statutory redundancy pay	19,290
Laptop (market value)	3,200
Non contractual goodwill payment	23,000
	<u>45,490</u>

Hema has no other income.

In previous years, staff who have been made redundant have always kept their laptops.

#### **Requirements:**

- 1) **Calculate the amount of Jinga Ltd's apprenticeship levy for both April 2023 and May 2023.** (3)
- 2) **State six items of information which must be included in a written statement for Aaron as he starts his employment.** (3)
- 3) (i) **Explain why the date of exercise by Aaron's is valid for an EMI scheme, and whether this would have been the same for a company share option plan.**  
  
(ii) **Calculate the amount chargeable to tax for Aaron on the grant and exercise of the EMI options, and the disposal of the shares.** (5)
- 4) **Calculate the Income Tax liability for Hema for 2023/24.** (4)

Total (15)

16. Abe and Brian have traded in partnership for many years, preparing accounts to 31 March each year. On 1 May 2023, Candice joined the partnership. Candice had no income in the two years before joining the partnership.

Partnership profit sharing agreement

Until 30 April 2023, Abe and Brian were allocated interest of 4% per annum on their capital invested in the partnership. Each partner had invested capital of £60,000. Abe was allocated an annual salary of £12,000. Abe and Brian shared the remaining profits in the ratio 3:2.

From 1 May 2023, the partners agreed to share profits between Abe, Brian and Candice in the ratio 2:2:1 with no interest and no salary allocations.

Year ended 31 March 2024

The partnership had tax-adjusted trading profits for the year ended 31 March 2024 of £240,000.

Candice is pleased with this result but knows she will have to start paying Income Tax and National Insurance Contributions. Abe has warned her to budget to make payments by 31 January 2025.

Tax returns for 2022/23

An accountancy firm, Counters LLP, acted for Abe, Brian and the partnership for 2022/23. Counters LLP submitted Abe and Brian's individual tax returns for 2022/23 on time. However, Counters LLP did not submit the partnership return until 3 May 2024 when a manager at Counters LLP realised it had been forgotten.

Abe and Brian have immediately complained to Tony, the head of Counters LLP. Tony, an ATT member, agrees the complaint is justified as staff of Counters LLP forgot to submit the return.

**Requirements:**

- 1) **Calculate each partner's trading profit for the year ended 31 March 2024.** (4)
- 2) **Explain which payments of Income Tax and National Insurance Contributions (NIC) Candice must make by 31 January 2025, clearly stating the tax year to which each payment relates. You should not calculate liabilities.** (4)
- 3) **Explain the penalties arising because of the late filing of the 2022/23 partnership return, stating the due date for the return.** (3)
- 4) **Under the Professional Rules and Practice Guidelines (PRPG), explain the actions Tony should take upon concluding that the complaint from Abe and Brian is justified.** (4)

Total (15)

17. Patshz Ltd

Patshz Ltd was incorporated on 5 September 2015. On 1 October 2015, the company issued new shares and deposited the funds in an interest-bearing bank account for use in the company's trade.

On 1 December 2015, Patshz Ltd started to trade. The company prepared its first set of accounts to 31 March 2016.

On 1 May 2016 Patshz Ltd bought a 0.01% shareholding in quoted company, Bibit plc, and first received dividends on 31 May 2016.

Patshz Ltd continued to prepare accounts to 31 March each year until 2023 when it instead prepared accounts for the 15-month period ended 30 June 2023.

Patshz Ltd's trading profits for the 15-month period ended 30 June 2023 were £300,000. Patshz Ltd received dividends from Bibit plc of £2,000 on 31 May 2022 and £1,000 on 31 May 2023. The company had no other income.

Fiona, Geraint and Halle

Fiona, Geraint and Halle are employees of Patshz Ltd for whom the company paid certain expenses during 2023/24.

Patshz Ltd reimbursed Fiona for the cost of a childminder to look after Fiona's daughter when Fiona had to attend a client meeting one evening.

Geraint likes to show interest in US news when talking to his US clients. Patshz Ltd paid Geraint's subscription to a US newspaper, directly to the newspaper's publisher.

Halle received a fixed monthly amount from Patshz Ltd specifically for Halle to take clients for meals, in her role managing client relationships.

**Requirements:**

- 1) **State the dates of all Corporation Tax accounting periods from 5 September 2015 to 31 March 2017.** (3)
- 2) **For the 15-month period ended 30 June 2023 explain, stating dates, Patshz Ltd's Corporation Tax deadlines for filing any returns and making any payments.** (3)
- 3) **Calculate the Corporation Tax payable for the 15-month period ended 30 June 2023.** (4)
- 4) **Explain whether Fiona, Geraint and Halle are charged Income Tax on the expense amounts, and if so, whether this is collected as PAYE.** (3)

Total (13)