



# **May 2024 Examination**

---

## **PAPER 3**

---

### **Business Compliance**

---

#### Part I Suggested Answers

---

*Candidates will be given credit for relevant points not on the mark scheme.*

1.

The basic tax point for a supply of services is the date the services are performed. (1/2)

Actual tax point

In the case of both goods and services, where a VAT invoice is raised or payment is made before the basic tax point, there is an earlier actual tax point created at the time the invoice is issued or payment received, whichever occurs first. (1)

14 Day Rule

There is also an actual tax point where a VAT invoice is issued within 14 days after the basic tax point. This overrides the basic tax point provided there was no payment before BTP. (1/2)

The basic tax point for the advice is on the date it is given which is 2 March 2024. (1/2) The actual tax point however is 18 February 2024 when the invoice was raised.(1/2)

2.

Recoverable %:

$\frac{1,854,113}{2,090,468} = 89\%$  (1) (round up to the next whole %)

Unattributable VAT relating to taxable supplies = £9,283 x 89% = £8,262 (1/2)

Unattributable VAT relating to exempt supplies: = £1,021 (£9,283 - £8,262) (1/2)

Total VAT relating to exempt supplies = £6,349 (£5,328 + £1,021) (1/2)

The full amount of exempt input tax can be reclaimed as it is de minimis. (1/2) This is because the input VAT relating to exempt supplies does not exceed £7,500 (£625 x 12) (1/2) and is also not more than 50% of the total input VAT

Total additional input VAT to be reclaimed is therefore is £4,233 (£175,670 - £171,437). (1/2)

3.

Violet is a limited cost trader because her VAT-inclusive expenditure on relevant goods of £1,200 is less than 2% of her flat-rate turnover in the prescribed accounting period; (1/2).

Any goods not exclusively used for business purposes are not relevant goods. (1/2)

Therefore Violet will need to use the 16.5% (1) flat rate of VAT inclusive turnover (1/2) to calculate the amount of VAT due to HMRC under the scheme.

Violet's turnover for a 12month period to 1 February 2025 (1/2) (the anniversary of joining) is likely to exceed £230,000. So the Violet will have not be eligible for the flat rate scheme from 1 April 2025. (1/2)

**Max 3**

4.

The accounting entries re:

Dr Debtors / cash      £201,840(1/2)

Cr Sales                              £168,200(1/2)

Cr VAT                                £ 33,640(1/2)

Dr Purchases              £ 85,300(1/2)

Dr VAT                        £17,060(1/2)

Cr Creditors                £102,360(1/2)

The closing VAT creditor is £580. (£16,000+£17,060-£33,640)(1/2)

**Max 3**

5.

Amounts to report:

Gross amount £1,035 (1/2)

Qualifying materials £250 (1/2)

CIS tax to deduct is £157 – This is calculated as the gross amount of £1,035 less the materials of £205 x 20%. (1)

Tulach Ltd would therefore pay HMRC CIS Tax of £157 and Zac £1,085 (£1,242 - £157). (1/2)

Travel and subsistence payments are not deducted in calculating the CIS amount. (1/2)

*Note: CIS tax is calculated based on VAT exclusive figures.*

6.

	£
Salary	77,000
Less personal allowance	(12,570) (1/2)
	64,430
Income tax:	
£44,200 x 20% (£37,700 + 100/80 x £5,200)	8,840(1½)
£20,230 x 40%	<u>8,092(1/2)</u>
Total	16,932

The employer contribution is an exempt benefit but does not attract any further relief. (1/2)

7. (2 marks)

	£	
Basis period: 1 July 2022 – 30 November 2023		(1/2)
Year ended 30 June 2023	70,000	(1/2)
Five months ended 30 November 2023	25,000	(1/2)
Less overlap profits	<u>(10,000)</u>	(1/2)
Trading profits for 2023/24	<u>£85,000</u>	

8. (maximum 3 marks)

The payment of ShPP must be reported to HMRC on the Full Payment Submission (FPS) (1/2) on or before 31 January 2024 (1/2).

The ShPP amount must also be shown on Jeff's form P60 for 2023/24 (1/2) given to him by 31 May 2024 (1/2).

The recovered ShPP must be reported to HMRC on an Employer Payment Summary (EPS) (1/2) by 19 February 2024 (1/2).

*Credit would also be given if noted that Narkie Ltd would show the ShPP on Jeff's payslip or if noted that there is no requirement to report the recovered ShPP to Jeff.*

9. (3 marks)

	£
Plan 2 repayment	
(£3,500 + £500 (1/2) - £2,274 (1/2)) × 9% (1/2)	155
Postgraduate loan	
(£4,000 (1/2)* - £1,750 (1/2)) × 6% (1/2)	<u>135</u>
Loan deductions from December pay	<u>£290</u>

*\*follow-through same figure as for Plan 2*

10. (3 marks)

	£	
Earnings:		
Salary (£2,000 × 12)	24,000	(1/2)
Bonus	<u>50,000</u>	(1/2)
	74,000	
(£50,270 - £12,570) (1/2) × 12% (1/2)	4,524	
(£74,000 - £50,270) (1/2) × 2% (1/2)	475	
Class 1 primary NIC	<u>£4,999</u>	

11. (3 marks)

	£
Loan benefit £30,000 × (2.25% (1/2) – 1% (1/2))	375
Car: MV at transfer of £20,000 (1/2)	<u>20,000</u>
<i>with no deduction or comparison (1/2)</i>	
Taxable benefit	20,375

Class 1A NIC (1/2)  
 $\pounds 20,375 \times 13.8\%$  £2,812 (1/2)

12. (4 marks)

Masive plc paid to Twen Ltd: 17,000 (1/2) – 3,400 (1/2) – 633 (1/2) *but not* 2,241 (1/2) = £12,967.

Masive plc (*and no other entity*) paid to HMRC (1/2) 3,400 + 633 (1/2) and 2,241 (1/2) = £6,274

Twen Ltd paid to Roger £12,967 (1/2) *the amount received from Masive plc*

13. (3 marks)

Income Tax payable on 14 April 2023 (1/2) = £100,000 × 30% (1/2) × 20% (1/2) = £6,000.

Income Tax payable on 14 October 2023 (1/2) = £6,000 – (1/2) £20,000 × 20/80 (1/2) = £1,000



## **May 2024 Examination**

---

### **PAPER 3**

---

### **Business Compliance**

---

#### Part II Suggested Answers

---

*Candidates will be given credit for relevant points not on the mark scheme.*

14.

1)

The implications of forming a VAT group are:

- The group is treated as one single taxable person. (1/2).
- One member of the group calls itself the 'representative member'. That member is responsible for all VAT accounting including the completion and submission of the VAT return. (1/2). However, all the members within the group registration are jointly and severally liable for any VAT due. Thus, they are liable for not only their share of the VAT, but for the whole VAT due from the group. (1/2).
- The main effect of VAT registration is that any supplies made between members of the VAT group are disregarded (1/2).

As both Copter Ltd and Flight Ltd have UK fixed establishments (1/2), and are controlled by Heli Ltd (more than 50% shareholdings) (1/2) they could all form a VAT group. However as Flight Ltd makes exempt supplies then this will make the entire group 'partially exempt'. (1/2). Therefore, as Flight Ltd makes wholly exempt supplies, it may be more advantageous for Heli plc and Copter Ltd to be the only members of the group. (1/2).

If exempt input VAT for Flight Ltd was under de minimis, it could potentially be claimed. (1/2).

**Max 4**

2)

A deemed supply will occur when goods are given away or where the goods are used for private purposes. (1/2) In either case an output tax charge will arise where input tax has been recovered (1/2).

A business that makes a deemed supply will usually have to account for output tax on the supply, so there will be output tax to put on the VAT return. (1/2) This output tax will be paid to HMRC when the VAT return is submitted. (1/2)

The gift to the customers is a deemed supply. (1/2) So input tax on the purchase can validly be recovered. (1/2) However where there is a gift of goods made in the course or furtherance of the business (1/2) where the cost to the donor is not more than £50 (excluding VAT) no output tax will be due. (1/2) This also applies to 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. (1/2).

The gift to a family member is also a deemed supply. (1/2) So input tax on the purchase can validly be recovered. (1/2) It is unlikely to fall within the definition of furtherance of the business because it is to a member of the director's family (1/2), so output tax of £178 (£890 x 20%) will need to be accounted for. (1/2)

3) The "electronic account" must contain the following:

- The business name, address and VAT registration number (1/2)
- Any adjustments from calculations made outside of the functional compatible software for any VAT accounting schemes used (1/2)
- The VAT on goods and services supplied, meaning everything sold, leased, rented or hired (supplies made) (1/2)
- The VAT on goods and services received, meaning everything bought, leased, rented or hired (supplies received) (1/2)

- Any adjustments made to a return(1/2)
- The 'time of supply' and 'value of supply' (value excluding VAT) for everything bought and sold(1/2)
- The rate of VAT charged on goods and services(1/2)
- Any reverse charge transactions, where the VAT on both the sale price record and the purchase price of the goods and services bought, is recorded(1/2)
- Copies of documents that cover multiple transactions made on behalf of the business like those made by volunteers for charity fundraising, a third party business or employees for expenses in petty cash(1/2)

Candidates were also given credit for the following points:

- The business name, address, VAT registration number
- Any VAT accounting schemes used
- For each supply made – the time of supply, the value of supply and the rate of VAT charged
- For each supply received – the time of supply, the value of supply and the amount of input tax to be claimed
- Summary data ie
  - The total output tax owed on sales
  - The total tax due in respect of reverse charge procedures
  - The total input tax entitled to be claimed
  - The total tax due/repayable after an error adjustment
  - Any other adjustment required eg. partial exemption adjustments

½ mark per point.

**Max 4**

4)

Output tax:	£
£138,800 x 20%	27,760 (1/2)
Input tax:	
Purchases £58,200	
Bad debts £ 1,200	
£59,400 x20%	(11,880)(1)
	15,880 (1/2)

Input VAT on client entertaining is not recoverable. (1/2) There is no VAT on wages.(1/2)

15.

1)

For April 2023 - the first month of the tax year:

Paybill	£
(£291,667) x 0.5%(1/2)	1,458
Levy allowance to date	(1,250)
(£15,000 / 12) (1/2)	<u>208</u>

For May 2023 - the second month of the tax year:

Total paybill year to date	£
	2,964



(£291,667 + £301,200) x  
0.5% (1)  
Monthly levy allowance  
Year to date  
(£1,250 x 2)(1/2) (2,500)  
Less levy already paid(1/2) (208)

Amount due £256

2)

The written statement of employment should contain the following:

- The names of the employer and employee (1/2)
- The date when employment began and the date on which the employee's period of "continuous employment" began(1/2)
- Details of remuneration including the intervals at which it is paid(1/2)
- Terms and conditions relating to hours of work, holidays and holiday pay (1/2)
- Information on where rules on health and safety may be found (1/2)
- The length of notice required on either side to terminate the contract(1/2)
- The period of employment (if not indefinite) (1/2)
- The job title or description of the work the employee is employed to undertake(1/2)
- The place of work (1/2)
- The currency in which remuneration is to be paid(1/2)

**Any other relevant point was also given credit.**

**Max 3**

3)

(i) Options must be exercisable within ten years of grant in order to be a qualifying option (1/2) but must be exercised within ten years of grant in order to qualify for favourable tax treatment (1/2). If this had been a company share option plan the exercise should be within three to ten years. (1)

(ii) For Aaron there was no income tax on the grant of the option (1/2) or when the option was exercised (1/2), The only tax charged on the employee was Capital Gains Tax (1/2) when the Aaron sold his shares.

CGT will be due on the difference between the sales proceeds and the actual cost:

	£
Sales proceeds (£15 x 1,500)	22,500 (1/2)
Less cost (£5 x 1,500)	<u>( 7,500) (1/2)</u>
Chargeable gain	<u>15,000 (1/2)</u>

4)

	£
Statutory redundancy pay	Exempt(1/2)
IT equipment – fully taxable	3,200(1/2)
Non contractual payment	23,000(1/2)
Less exemption (£30,000-£19,290)	<u>(10,710) (1)</u>
Taxable amount	<u>15,490</u>

Income Tax liability

	£
Salary	55,000
Termination package	<u>15,490</u>
	70,490
Less PA	<u>(12,570)</u> (1/2)
Taxable income	<u>57,920</u>
Income Tax	
£37,700 x 20%	7,540 (1/2)
£20,220 x 40%	<u>8,088</u> (1/2)
	<u>15,628</u>

16.

1) Partners' trading profits (4 marks)

	Total £	Abe £	Brian £	Candice £
1 April 2023 – 30 April 2023				
£240,000 × 1/12 (for split 1/12:11/12)	20,000			(1/2)
Interest £60,000 × 4% (1/2) × 1/12 (1/2)	(400)	200	200	
Salary 12,000 × 1/12	<u>(1,000)</u>	1,000		(1/2)
	18,600			(1/2)
PSR 3:2	<u>(18,600)</u>	11,160	7,440	(1/2)
1 May 2023 – 31 March 2024				
£240,000 × 11/12	220,000			
PSR 2:2:1	<u>(220,000)</u>	<u>88,000</u>	<u>88,000</u>	<u>44,000</u> (1/2)
		<u>£100,360</u>	<u>£95,640</u>	<u>£44,000</u> (1/2)

Lose final ½ if salary/interest not actually included in the total

2) Income Tax and NIC payments (maximum 4 marks)

She must pay her full so no POA suggested for 2023/24 (1/2) Income Tax liability for 2023/24 (1/2) based on the profits for the period ended 31 March 2024 (1/2).

Candice must pay Class 2 NIC (1/2) and (full) Class 4 NIC (1/2) for 2023/24 (1/2).

She must also pay her first payment on account for 2024/25 (1/2) of Income Tax (1/2) and Class 4 NIC (1/2), being 50% of the liability for those taxes (1/2) for 2023/24 (1/2).

3) Penalties for late filing of the partnership return (3 marks)

The return was due on 31 January 2024 (1/2). There was an immediate penalty of £100 (1/2) for each of Abe and Brian (1/2). As the return was more than three months late (1/2) there may be a further penalty charged for each partner of £10 per day (1/2) for three days (1/2).

#### 4) Responding to a justified complaint (maximum 4 marks)

Tony should make a prompt acknowledgement (1/2) and apology (1/2).

However, before doing so (1/2) he should consider carefully whether the late returns could give rise to a claim for professional negligence against the firm (1/2). In such circumstances, legal advice may be helpful (1/2). Tony should consider whether it is appropriate to notify the matter to the firm's professional indemnity insurers (1/2) as soon as possible (1/2) and obtain their approval to any response or apology (1/2) prior to making it.

Tony should maintain a careful written record of the complaint and steps taken to deal with it (1/2).

17.

#### 1) Accounting periods (3 marks)

1 October 2015 (1/2) (1/2) (for this start, and for ignoring 5 September 2015) – 30 November 2015 (1/2) (for ending day before start to trade)

1 December 2015 – 31 March 2016 (1/2) (ending when POA ends)

1 April 2016 – 31 March 2017 (1/2) (1/2) (ending when POA ends, ignoring both May dates)

#### 2) CTSA filing and payment for long period of accounts (maximum 3 marks)

There are two accounting periods so two Corporation Tax returns (1/2). These are for the first 12 months (ended 31 March 2023) and the final three months (ended 30 June 2023) (1/2).

Both returns (1/2) must be filed within 12 months of the end of the period of account ie by 30 June 2024 (1/2)\* or within three months of receipt of a filing notice if later (1/2).

The Corporation Tax for the first 12-month period must be paid by 1 January 2024 (1/2) and that for the three-month period must be paid by 1 April 2024 (1/2)\*.

*\*follow-through mark if think two return filing dates or one payment date*

#### 3) Corporation tax payable (4 marks)

	Year ended 31 March 2023 £	3m ended 30 June 2023 £	
Trading profits = TTP £300,000 (12:3)	240,000	60,000	(1/2)
Dividend Augmented profits <i>Only need augmented profits calc for FY23 period</i>		<u>1,000</u> 61,000	(1/2)*
CT FY 2022: 240,000 × 19%	45,600		(1/2)
FY 2023: (W) 60,000 × 25%		15,000	(1/2)
Less 3/200 (1/2) × (62,500 – 61,000) (1/2) × 60,000/61,000 (1/2)*		<u>(22)</u>	
		<u>£14,978</u>	

Working: Upper and lower limit for CT rate

250,000 × 3/12 = 62,500 (1/2)

50,000 × 3/12 = 12,500

*\*Lost if no augmented profits calculated and used, other marks available on follow-through*

**4) Expenses of employment (maximum 3 marks)**

Fiona is charged Income Tax on the reimbursement of the childminder fees (1/2). The amount is collected via PAYE as the reimbursement was paid to Fiona (1/2).

Geraint is charged Income Tax on the newspaper subscription (1/2). The amount is not collected via PAYE as Patshz Ltd paid the supplier directly (1/2).

For both Fiona and Geraint, the charge is due because the expense is not wholly, exclusively and necessarily incurred in the performance of the employee's duties (1/2). *awarded if mentioned for either*

Halle is not charged to Income Tax on the amount received (1/2) as this is a round sum allowance exclusively for entertaining / Patshz Ltd does not get a deduction from trading profits for the amount (1/2).