

**THE ASSOCIATION OF
TAXATION TECHNICIANS**

ATT PAPER 3 BUSINESS COMPLIANCE

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- 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. YourHouse Ltd is a VAT registered building company, contracted by a local housing association in Manchester, a town in the UK. YourHouse Ltd provided some construction services for the housing association on buildings for elderly residents. This involved work on:
- 1) a new residential building; and
 - 2) converting a non-residential building into communal flats.

The construction services provided by YourHouse Ltd were:

- 1) joinery work in both buildings; and
- 2) installing mobility aids such as electrically operated stair lifts in both buildings.

Explain how the construction services provided by YourHouse Ltd are treated for VAT purposes. Clearly state the rate(s) of VAT YourHouse Ltd should charge for the work done.
(3)

2. Gerard is a VAT registered trader and during the quarter to 30 September 2023, made the following supplies to a customer, Anika:

<u>Date</u>	<u>VAT exclusive cost</u> £	<u>VAT liability</u>	<u>VAT inclusive cost</u> £
8 August 2023	1,200	Zero rated	1,200
25 August 2023	850	Standard rated	1,020
1 September 2023	500	Standard rated	600
8 September 2023	400	Exempt	400

Gerard normally allows his customers 30 days credit. He paid all relevant output tax to HMRC on his VAT returns. On 18 April 2024, Anika paid Gerard £1,800 and the remaining outstanding debt was written off.

Explain how the payment will be allocated against Anika's amounts outstanding and calculate the amount of bad debt relief that Gerard is allowed to claim in the quarter to 30 June 2024.
(3)

3. Fiacra Ltd is a VAT registered trading company and had always submitted its VAT returns on time until the return for the quarter ended 31 March 2023. Its recent VAT filing history is:

<u>Quarter ended</u>	<u>Date VAT return submitted</u>
31 March 2023	15 May 2023
30 June 2023	29 July 2023
30 September 2023	18 November 2023
31 December 2023	9 January 2024
31 March 2024	1 June 2024
30 June 2024	22 August 2024
30 September 2024	8 November 2024 (estimated)

Explain how the VAT penalty system will operate for the late VAT returns submitted by Fiacra Ltd.
(3)

4. During March 2024, two employees of Owl plc were absent from work due to illness.

Amira works part time for two days per week and is paid £150 per week for her work. She has been off sick for two complete weeks.

Binger earns £350 per week. Her normal working days are Tuesday to Friday. She is off sick from Tuesday 5 March 2024 and returns to work on Friday 15 March 2024.

Calculate and explain, the amount of Statutory Sick Pay that Owl plc will have to pay to each employee for each week. (3)

5. Jirang Ltd held a summer barbecue for 80 employees at a cost of £235 per person. Jirang Ltd agreed to meet all tax liabilities via a PAYE Settlement Agreement (PSA). 30 employees are basic rate taxpayers, 40 employees are higher rate taxpayers and 10 are additional rate taxpayers.

Calculate the amount of Income Tax and Class 1B National Insurance Contributions due. (3)

6. Farrell plc set up a Company Share Option Plan (CSOP) for its employees and issued share options on 1 July 2022. It has not informed HMRC that it has set up a scheme.

1) **Explain**

- (a) **the process Farrell plc must undertake to correctly register the scheme; and**
- (b) **the reporting obligations to ensure the share scheme obtains the tax advantages available.**

2) **Identify any penalties payable by Farrell plc.** (4)

7. Ramona is employed by Whistle Ltd. She earns £3,200 per month and is repaying a Plan 1 student loan and a postgraduate loan.

Calculate the amount Whistle Ltd should deduct from Ramona's salary each month. (2)

8. Jermaine works in the UK for Sashack Ltd, a UK computing company. He was sent to Norway on secondment for three months from 1 November 2023.

Sashack Ltd reimbursed Jermaine for the following expenses:

	£
Jermaine's flights at the start and end of the secondment	1,200
Hotel accommodation for Jermaine when in Norway	8,000
Flights for Tamar, Jermaine's adult daughter, to visit him in December 2023	2,000
Coat bought in Norway by Jermaine, which he kept	500

Calculate the total expenses chargeable to Income Tax. (2)

9. Argont plc is a very large company for Corporation Tax instalment payments. For the year ended 31 December 2023, instalments were paid on each due date. The cumulative amounts paid were:

	<u>Cumulative amounts paid</u>
	<u>£ million</u>
First instalment	1.5
Second instalment	4.3
Third instalment	5.9
Fourth instalment	8.0

The Corporation Tax liability for the year was £8 million.

State the due dates for the instalment payments for the year ended 31 December 2023 and calculate the interest payable or receivable by Argont plc. (4)

10. Janet and Seema, who are not related, each own 50% of the ordinary shares of Batti Ltd, a UK company. Batti Ltd prepares accounts to 30 June and does not pay Corporation Tax by instalments.

On 3 May 2023 Batti Ltd made an interest-free loan of £60,000 to Janet, who is not an employee or director of the company. On 15 March 2024 Batti Ltd wrote off £10,000 of the loan. The remaining amount is outstanding.

Explain, with supporting calculations and dates, the tax implications for Batti Ltd of the loan transactions. (4)

11. Drose Ltd had taxable total profits of £7,400,000 for the nine months ended 31 March 2024. The company received dividends of £200,000 from a 1% shareholding in March 2024.

For the year ended 30 June 2023, Drose Ltd had taxable total profits of £1,300,000 and did not receive any dividends.

Explain, with supporting calculations, whether Drose Ltd had to pay Corporation Tax by instalments for the nine months ended 31 March 2024. (3)

12. Riley started trading on 1 July 2023 and had trading profits for 2023/24 of £75,000.

Calculate Riley's National Insurance Contributions for 2023/24. (3)

13. Mendi is a sole trader. He paid his self-assessment liabilities for 2022/23 as follows:

	<u>Date</u>	<u>Amount</u>
		£
First payment on account	10 March 2023	5,000
Second payment on account	30 July 2023	5,000
Balancing payment	19 April 2024	3,000

The amounts paid were correct.

Explain which payments were made late and explain, with supporting calculations, Mendi's late payment penalty. (3)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

14. You are a tax adviser in practice and your firm acts for the following clients:

Imtiaz

Imtiaz is a GB-based, VAT registered trader, selling equipment to children's playcentres. During the quarter ended 31 March 2024 he made the following imports and exports:

	£
Import of inflatable ball pits from a trader in Northern Ireland costing	15,000
Import of playframes and slides from a trader in North America costing	30,000
Export of soft toys to Northern Ireland for a sales price of	2,100
Export of children's gaming machines to a trader in Brazil for a sales price of	5,400

All figures are exclusive of VAT and Imtiaz uses postponed VAT accounting (PVA).

Harper

Harper is a partially exempt trader running fitness clubs, providing health services and renting out space in her buildings to tenants. She operates annual accounting for VAT.

During the year ended 31 March 2024 her VAT exclusive turnover from standard rated supplies was £58,000 and her turnover from exempt supplies was £23,500. Harper also sold some fitness equipment for £22,000 plus VAT.

The input VAT suffered was:

	£
Wholly attributable to taxable supplies	3,080
Wholly attributable to exempt supplies	2,500
Residual input tax	<u>5,750</u>
	<u>11,330</u>

Harper has not passed either of the simplified tests for partial exemption.

Wyatt Ltd

Wyatt Ltd uses Apportionment Scheme 1 for VAT. In the quarter ended 31 March 2024, the business purchases, exclusive of VAT were:

	£
Standard-rated goods	58,000
Zero-rated goods	33,000

The total gross sales for the period were £102,000.

During the quarter ended 31 March 2024, Wyatt Ltd also had the following further transactions:

	<u>VAT inclusive</u>
	£
Purchase of car for use by a director	22,800
Entertaining UK customers	2,160
Repairs on the director's car	1,500

Requirements:

- 1) Explain, with calculations, the entries to be included on Imtiaz's VAT return for the quarter ended 31 March 2024.** (5)
- 2) Calculate Harper's VAT payable / repayable for the year ended 31 March 2024.** (5)
- 3) Calculate the amount of Wyatt Ltd's output tax for the quarter ended 31 March 2024, ignoring the further transactions.** (2)
- 4) Show the journal entries required for Wyatt Ltd for the further transactions in the quarter ended 31 March 2024.** (3)

Total (15)

15. Sandpiper Ltd has recently become a client of the firm where you work as a tax adviser. Your firm has an arrangement with a local solicitor for the introduction of new clients. The solicitor is paid £500 for each client they recommend.

Sandpiper Ltd is a registered contractor under the Construction Industry Scheme (CIS) and has contracts with local schools and hospitals for building and maintenance.

Sandpiper Ltd has recently recruited a new employee and given work to a subcontractor.

New employee

Jemima was employed by Sandpiper Ltd from 6 June 2023 on an annual salary of £67,000. She had previously lived in Birmingham but relocated to London to work in Sandpiper Ltd's Head Office from 6 June 2023. She had no income in 2023/24 prior to her new employment.

Sandpiper Ltd paid Jemima's removal costs of £9,000. From 6 June 2023, Jemima was provided with a flat to live in which Sandpiper Ltd had bought in 2015 for £375,000. The market value of the flat when Jemima moved in was £650,000. The annual value of the flat is £13,000. Sandpiper Ltd also paid the bills for heat, light and cleaning for the flat which cost £6,200 from 6 June 2023 to 5 April 2024. Sandpiper Ltd has not yet registered for voluntary payrolling.

Contractor

Sandpiper Ltd entered into a contract with a subcontractor to undertake building work in a school. The subcontractor has told Sandpiper Ltd that they are registered under CIS.

Requirements:

- 1) **Applying the Professional Rules and Practice Guidelines (PRPG), explain whether the introduction fees are permitted, and state three reasons why it may not be appropriate for your firm to accept one of the potential new clients.** (3)
- 2) **Explain Sandpiper's obligations with HMRC as an employer, in respect of employing Jemima as a new employee, and any reporting requirements to Jemima following the end of the tax year.** (3)
- 3) **Calculate Jemima's employment income for 2023/24 and explain whether her benefits are eligible for voluntary payrolling.** (5)
- 4) **Explain how Sandpiper Ltd can verify if the subcontractor is registered under CIS and the information it will need to undertake the verification process.** (3)

Total (14)

16. Janina was a sole trader architect until she ceased to trade on 31 December 2023. She had one employee, Mo.

Mo's redundancy

On 31 December 2023, Janina made Mo redundant, without him serving his notice period of two months. On that date, Janina paid Mo his usual monthly salary for December of £2,500, a statutory redundancy payment of £1,800, and a further cash payment of £32,000 (all gross amounts).

Janina also gave Mo design equipment, which had only been used in the business. The equipment had cost Janina £6,000 two years earlier and was worth £3,100 on 31 December 2023.

Continued

Continuation

Trading results

Janina had tax-adjusted trading profits in recent periods as follows:

	£
Year ended 30 September 2021	150,000
Year ended 30 September 2022	120,000
Year ended 30 September 2023	90,000
Three months ended 31 December 2023	40,000

Janina had overlap profits brought forward of £4,900.

Skilzup Ltd

Janina incorporated Skilzup Ltd, becoming the sole shareholder and director. Skilzup Ltd began to trade on 1 January 2024, selling Janina's services as a lecturer. Skilzup Ltd is not required to register for VAT.

Skilzup Ltd has one client, a university, Alty Uni. Janine lectured for this client between January and March 2024. If Janina had engaged with Alty Uni directly, she would be deemed an employee of Alty Uni. The off-payroll working rules have been applied correctly.

For this work, in March 2024 Skilzup Ltd received £10,000 from Alty Uni after the university had deducted PAYE and National Insurance Contributions.

From this amount, Skilzup Ltd paid Janina a dividend of £8,000 in March 2024, the only payment it made to her in 2023/24.

Liability for business debts

Janina is aware that using a company to run a business is different from when she acted as a sole trader. She wants to know how her liability for business debts differs. Skilzup Ltd is seeking a bank loan to expand, but Janina is confused why the bank is making demands of her personally as part of the loan agreement.

Requirements:

- 1) Calculate Mo's taxable employment income due to the payments and equipment received on 31 December 2023, showing clearly whether each amount is fully taxable, partially exempt or fully exempt. (4)**
- 2) Calculate Janina's assessable trading profits for the final two tax years of her architect trade, clearly identifying the tax years and basis periods. (4)**
- 3) Explain which entity made the decision that Janina was a deemed employee of Alty Uni, how the decision was documented, and how it could have been disputed. (3)**
- 4) Explain what Janina must report on her self-assessment tax return for 2023/24, in terms of the amounts received and paid by Skilzup Ltd. Do not perform tax calculations. (3)**
- 5) Explain Janina's liability for business debts when operating through the company, compared with as a sole trader, including the relevance of the bank's demands. (3)**

Total (17)

17. Pilde plc is a quoted technology company which operates from four locations in the UK.

Many employees, both associates and managers, leave the company after one or two years, and the company is trying to address this. All employees are aged over 25 and have salaries exceeding £30,000 per annum.

Car arrangements

Pilde plc introduced car arrangements from 6 April 2023.

The company paid associates an allowance of £0.50 per business mile, for use of their own cars for company business. Each associate typically drove 20,000 business miles in 2023/24.

Pilde plc provided managers with petrol-electric hybrid cars for business and private use. Each manager had to contribute £8,000 to the purchase of their car. Pilde plc paid £39,000 per car, which had a list price of £40,000, CO₂ emissions of 30g/km, and an electric range of 85 miles. The company did not provide fuel for private use.

Share Incentive Plan (SIP)

Pilde plc will set up a SIP awarding only free shares. The directors have different suggestions about who should participate and how.

The operations director suggests excluding employees who only work at weekends.

The HR director suggests employees should not be awarded shares in the SIP until they have worked for Pilde plc for at least two years.

The managing director suggests employees should not be allowed to withdraw shares from the SIP until five years after the share award.

The finance director suggests the shares should be awarded to employees in each of the company's locations, based on the financial results achieved by that location.

Corporation Tax return

Pilde plc's Corporation Tax return for the year ended 31 March 2023 was submitted on 31 May 2024. The notice to deliver the return was received on 30 April 2023.

Requirements:

- 1) **Calculate the employer's National Insurance Contributions (NIC) on the car arrangements for 2023/24, for an associate and a manager, stating the class of NIC in each case.** (5)
- 2) **Explain whether each director's suggestion would be allowed under the SIP rules.** (4)
- 3) **State and explain, for the Corporation Tax return for the year ended 31 March 2023, the latest dates by which HMRC can:**
 - (a) **amend an obvious error; and**
 - (b) **open an enquiry.**(3)

Total (12)