November 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 construction services on the residential building are normally zero-rated, so the rate of VAT is 0%.(1)

Construction services on the conversion of a non-residential building into a qualifying residential building are normally reduced-rated, so the rate of VAT is 5%. (1)

The installation of mobility aids for elderly residents has VAT at 0% in the new residential building, (1/2) but, to the extent that the mobility aids are not building materials, they are standard rated ie 20% in the converted building.(1/2)

Credit was also awarded where candidates appropriately explained zero rating in converted buildings for joinery.

2.

As the payment does not relate to any particular supply it is treated as relating to the earliest supplies. (1/2) Therefore payment is treated as made in full against the supply on 8 August (1/2) with the remaining £600 allocated to the supply on 25 August 2023. (1/2). The debt outstanding on 25 August is £420 so the VAT outstanding is (£420 x 1/6) = £70 (1/2)so a bad debt relief claim can be made for this amount as it has been outstanding for more than 6 months since the due date for payment. (1/2) The VAT on the debt outstanding from 1 September of £100 can also be claimed. (1/2). There is no VAT outstanding on the exempt supply so the total amount of the bad debt claim is £170. (1/2)

Marks were awarded where it was clear from calcs that a candidate was setting off the amounts from the earliest invoice.

Max (3)

3.

The first late return is for the period to 31 March 2023 and so as this is the first late return, Fiacra Ltd will incur a penalty point.(1/2)

The next late return is for the period to 30 September 2023, so this will incur a second penalty point.(1/2)

The next late return is for the period to 31 March 2024 will incur a third penalty point.(1/2)

The next late return is for the period to 30 June 2024 and so as this a fourth penalty point, a financial penalty of £200 will be imposed.(1/2)

Any subsequent late returns will not result in penalty points (1/2)but a further £200 fine could be imposed for each subsequent failure. (1/2)

The penalty points will reset to zero once Fiacra Ltd has filed four VAT returns on time.(1/2)

Max (3)

4.

SSP is paid at the flat rate of £109.40 per week. (1/2)

Amira will receive £109.40/2 = £54.70 per day.(1/2) but the first three of these are waiting days so she is paid nothing for week 1 and £54.70 in week 2 (1/2).

Binger has seven qualifying days (1/2), In the first week, SSP is only paid for one day. She will receive £109.40/4 = £27.35.(1/2)

In the second week she will receive £109.40/4 x 3 = £82.05.(1/2)

5.

Income tax will be as follows:

Basic rate taxpayers = Total benefit of £294(£235 + £59 (Tax 20/80 x £235)) (1/2)

Higher rate taxpayers = Total benefit of £392 (£235 + £157 (Tax 40/60 x £235)) (1/2)

Additional rate taxpayers = Total benefit of £427 (£235 + £192(Tax 45/55 x £235)) (1/2)

Tax within PSA = £9,970 (£59 x 30 + £157 x 40 + £192 x 10) (1/2)

Class 1B is:

Earnings within PSA	(£235 X 80) = £18,800	
Income tax	= £9,970	
		£28,770(1/2)
Class 1B @ 13.8% =		£3,970(1/2)

6.

A CSOP must be registered with HMRC using the Employment Related Securities online service. (1/2)The scheme must be self -certified stating that all of the requirements to be tax advantaged are met. (1/2)Farrell plc has set up a new scheme and it must be registered by 6 July following the tax year in which the first award of shares was made ie by 6 July 2023.(1/2)

Farrell plc should have submitted an annual return for the scheme by 6 July following the end of the tax year ie the first one by 6 July 20231/2)

If the employer fails to file a return by the correct date then an automatic penalty of £100 will be charged. (1/2)An additional penalty of £300 is charged if the return is outstanding for more than 3 months. (1/2) The penalty is repeated if the return is outstanding for more than 6 months (1/2) and daily penalties can be levied of £10 per day if the return is outstanding for more than 9 months.(1/2)

7.

Plan 1

Excess over threshold is £3,200-£1,834 = £1,366 (1/2)

Deduction x 9% = £122.94 rounded down to £122(1/2)

Postgraduate

Excess over threshold is £3,200-£1,750 = £1,450(1/2)

Deduction x 6% = £87(1/2)

8.

	£	
Jermaine's flights to and from secondment *give if omitted from a full calc*	0	**(1/2)**
Hotel accommodation for Jermaine – subsistence *give if omitted from a full calc*	0	**(1/2)**
Flights for Tamar	2,000	**(1/2)**
Coat	500	**(1/2)**
Taxable employment income	£2,500	
		(2 marks)

9.

Due dates **2 x (1/2)***	Cumulative paid	Cumulative due	Overdue/(overpaid)	
	£ million	£ million	£ million	
14 March 2023	1.5	2.0	0.5	**(1/2)**
14 June 2023	4.3	4.0	(0.3)	**(1/2)**
14 September 2023	5.9	6.0	0.1	**(1/2)**
14 December 2023	8.0	8.0	0	

**½ for first due date, ½ for subsequent instalments each three months later*

Interest		£	
Payable on first instalment	£0.5 million × 5% × 3/12	6,250	
Due on second instalment	£0.3 million × 3.75% × 3/12	(2,813)	
Payable on third instalment	£0.1 million × 5% × 3/12	1,250	
Interest payable		£4,687	**3 x (1/2)****

*** ½ for each for the two rates demonstrated, ½ for 3/12 correctly applied*

(4 marks)

10.

This is a loan to a participator (shareholder) of a close company **(1/2)** because Batti Ltd is controlled by five or fewer participators (two) **(1/2)** and is UK resident **(1/2)**.

Therefore, a s.455 charge was payable by Batti Ltd **(1/2)** on the normal due date of corporation tax for the year ended 30 June 2023 i.e. 1 April 2024 **(1/2)**.

The charge is made on the lower of the amount of loan outstanding on 30 June 2023 (the last day of the accounting period) £60,000 **(1/2)** and on the due date of 1 April 2024, £50,000 **(1/2)**, meaning the charge is 33.75% × £50,000 = £16,875 **(1/2)**.

The loan write-off is not an allowable deduction for corporation tax purposes **(1/2)**.

(maximum 4 marks)

It is not necessary to name the tax charge using its legislative section number to receive full credit.

Credit is available for recognising that the loan and charge must be reported on (the supplementary pages to) the corporation tax return.

11.

Drose Ltd had augmented profits of £7,400,000 + £200,000 = £7,600,000 **(1/2)** for the nine-month period.

This exceeded the profit limit for instalments of £1,500,000 × 9/12 = £1,125,000 for a nine-month period **(1/2)**.

The limit of £1,500,000 was not exceeded in the prior year as augmented profits are £1,300,000 **(1/2)**. However, because augmented profits in the nine-month period exceed £7,500,000 (£10,000,000 **(1/2)** × 9/12 **(1/2)**) instalments are still due for the nine-month period **(1/2)***.

**award for candidate's own conclusion eg for saying no instalments if they forget to reduce the £10 million limit or forget it entirely (already penalised).*

(3 marks)

12.

	£
Class 2	
£3.45 **(1/2)** × 52 × 9/12 **(1/2)**	135
Class 4	
(£50,270 - £12,570) **(1/2)** × 9% **(1/2)**	3,393

(£75,000 - £50,270) **(1/2)** × 2% **(1/2)**	495
	£4,023

(3 marks)

13.

First payment on account was due by 31 January 2023 so the payment was late **(1/2)** but no penalties are due for late payments on account **(1/2)**.

Second payment on account was due by 31 July 2023 and so was not late **(1/2)**.

The balancing payment was due on 31 January 2024 **(1/2)**. This was more than 30 days late **(1/2)** and so a 5% penalty is due **(1/2)** of £3,000 × 5% = £150 **(1/2)**.

(maximum 3 marks)

November 2024 Examination

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Business Compliance

Part II Suggested Answers

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14.

1)

The import of the ball pits from Northern Ireland would be subject to normal domestic VAT. (1/2) The seller would therefore have charged £15,000 x 20% = £3,000. (1/2) This would be recovered by Imtiaz on his VAT return.

The import of playframes from North America results in the trader in North America having no UK VAT obligations as they are not making a UK supply. (1/2) Even though it is not a UK supply, VAT will be due on the import (1/2) and it is Imtiaz's obligation to account for VAT at the appropriate rate.(1/2) Therefore, there will be input VAT of £30,000 x 20% = £6,000 which can be deducted on Imtiaz's VAT return.(1/2)

Postponed VAT Accounting means that the VAT is deferred at the time of import and instead is classed as output VAT on the VAT return. (1/2) As Imtiaz's business is fully taxable then there is no VAT to pay as the output VAT will be deducted as input VAT on the VAT return.(1/2)

Goods arriving into Northern Ireland from Great Britain are treated as an import and technically liable to import VAT However, the seller will continue to charge domestic VAT to its customers and the VAT charged will be accounted for as output VAT(1/2) on the VAT return so Imtiaz should show output tax of £2,100 x 20% = £420.(1/2)

Exports are zero rated, regardless of the type of good supplied and this will also be the case for the export of the gaming machines.(1/2)

(max 5 marks)

2)

Recoverable % = £58,000 / £81,500 = 71.2% (1/2) rounded up to 72%.(1/2)
½ mark for excluding sale of capital from calculation of recoverable %. (follow through on 2 x ½ marks above if capital is not excluded)

	Taxable supplies **£**	**Exempt supplies** **£**
Input tax directly attributable to taxable supplies*	3,080	
Input tax directly attributable to exempt supplies*(1/2) for both treated correctly		2,500
Residual input VAT attributable to taxable supplies: £5,750x72%(1/2)	4,140	
Attributable to exempt supplies £5,750 x 28%(1/2)		1,610
Total input tax	**7,220**	**4,110**

The trader would meet the de minimis test as total exempt input tax not more than £625 per month (ie £4,110/12 = £343) (1/2) and is also not more than 50% of the total input tax.(£4,100/£11,330 <50%) (1/2) So all of the VAT is recoverable. (1/2)

Output tax = £58,000 x 20% + £22,000 x 20% = £16,000(1/2)

Less input tax of £11,330= £4,670 payable(1/2)

(maximum 5 marks)

3)

	£
Standard rated sales (VAT inclusive) £58,000 x 1.2	69,600 (1/2)
Mix % £69,600/(£69,600+£33,000) = 67.836%(1/2)	
Sales apportionment 67.836% x £102,000(1/2) x 1/6(1/2)	11,532

(2 marks)

4)

Journal entries:

Dr Fixed assets	£22,800	
Cr Bank/creditors		£22,800
Dr Entertaining Expenses	£2,160	
Cr Bank/creditors		£2,160
Dr Repairs	£1,250	
Dr VAT control	£ 250	
Cr Bank/creditors		£1,500

1 mark for each journal entry

(3 marks)

Total 15 marks

15.

1)

A member may pay a fee, commission or other reward to a third party in return for the introduction of a new client(1/2) (or further work for an existing client) provided that:

- A member has no reason to believe, and does not believe, that undue pressure or influence was exerted on the prospective client by the third party; (1/2)
- Before accepting instructions, a member has disclosed to the prospective client, in writing, both the amount and nature of the fee, commission or other reward and the identity of the third-party recipient.(1/2)

The firm may feel it is not appropriate to accept a potential client if (any three of the below or a valid alternative):

- the potential client is not acceptable in terms of the risks which will arise for the practice from acting for that client; (1/2)
- the member and firm do not have the skills and competence to service the client's requirements during the course of the engagement; (1/2)
- there is any conflict of interest in accepting the client and if so whether and how it might be managed; (1/2)
- there is not a positive response to the professional enquiry letter (to former adviser) (1/2)
- the firm is not able to complete anti-money laundering identification checks (1/2)

(maximum 3 marks)

2)

They need to register her with HMRC using a full payment submission (1) and then deduct income tax and NIC through PAYE.

She must be given a P60 by 31 May (1) following the end of the tax year and any benefits must be reported on a P11D by 6 July following the end of the tax year.(1)

(3 marks)

3)

	£
Salary	
£67,000 x 10/12	55,833(1/2)
Relocation costs (£9,000-£8,000) (£9,000-£8,000)	1,000 (1/2)
Flat	
Annual value x 10/12	10,833(1/2)
(£650,000(1/2)- £75,000(1/2)) x 2.25%(1/2) x 10/12(1/2)	10,781
Bills	6,200(1/2)
Total income	84,647

Jemima's relocation costs and household bills will not be eligible for voluntary payrolling as no election was made before the start of the tax year. (1/2) Living accommodation benefits are never eligible for voluntary payrolling (1/2)

(maximum 5 marks)

4) Sandpiper Ltd can verify subcontractors using:

- the free HMRC CIS online service
- commercial CIS software

(1 for any reference to the online service or software)

Sandpiper Ltd will need

It will need the subcontractor's:

- UTR (individual or company) **(1/2)**
- National Insurance number if they're a sole trader –(1/2)
- company name and registration number if they're a limited company(1)

(3 marks)

Total 14 marks

16.

1) **Mo's redundancy**

	£	£	
December salary – fully taxable		2,500	**(1/2)**
PENP fully taxable **(1/2)** £2,500 × 2 **(1/2)**		5,000	
Partially exempt:			
Statutory redundancy payment *(or allow as 'fully exempt' if £30,000 is reduced by this amount)*	1,800		**(1/2)**
Remaining cash payment *(or allow as 'fully exempt' if due to £30,000)* **(1/2)** (£32,000 – 5,000) *reduced by PENP* **(1/2)**	27,000		
Market value of design equipment	3,100		**(1/2)**
Less exempt amount	(30,000)		**(1/2)**
		1,900	
Taxable employment income		£9,400	

(4 marks)

2) **Assessable trading profits**

	£	
Penultimate tax year is 2022/23 **(1/2)**		
Year ended 30 September 2022 **(1/2)**	120,000	**(1/2)**
Final tax year is 2023/24 **(1/2)**		
1 October 2022 – 31 December 2023 **(1/2)**		
Year ended 30 September 2023	90,000	
Three months ended 31 December 2023	40,000	

	130,000	**(1/2)**
Less overlap profits *(deduction, final tax year)*	(4,900)	**2 x (1/2)**
Trading profits for 2023/24	£125,100	

(4 marks)

3) **Determining worker status**

Alty Uni being the client was responsible for determining Janina's status **(1/2)** as the university is a public authority under the legislation **(1/2)**.

Alty Uni had to issue a status determination statement **(1/2)** to Janina **(1/2)** setting out its assessment of her status and the reasons for its assessment **(1/2)**.

Alty Uni must have a 'status disagreement process' **(1/2)** that Janina could have used **(1/2)** if she disagreed with the decision.

(maximum 3 marks)

4) **Janina's self-assessment tax return**

Janina must record the total amount of £10,000 **(1/2)** as employment income on her tax return **(1/2)** with Alty Uni named as the employer **(1/2)**. She will show the PAYE (only) deducted by Alty Univ as tax already taken off this employment income **(1/2)**. *Allow – credit is given for the PAYE suffered in the tax calculation*

The dividend of £8,000 is effectively remuneration for Janina's services provided to Alty Uni **(1/2)**. As it is less than the deemed direct payment from Alty Uni **(1/2)** which has already been taxed, the dividend is not charged to income tax **(1/2)** and does not need to be reported on Janina's tax return **(1/2)**.

(maximum 3 marks)

5) **Liability for business debts**

When operating through Skilzup Ltd, the company taking out the loan is a separate legal entity to Janina **(1/2)**. Janina's liability for debts such as this is limited to the amount of her subscribed share capital **(1/2)**. When she was a sole trader, she would have been liable for unlimited debts **(1/2)** which may require settlement by her personal assets **(1/2)**.

The bank lending to the company may still require a personal guarantee from Janina **(1/2)** to cover the loan amount **(1/2)**. This removes the limited liability/ again puts her personal assets at risk **(1/2)**.

(maximum 3 marks)

Total 17 marks

17.

1) **National Insurance Contributions**

	£
Associate:	
Mileage allowance: 20,000 × (0.50 **(1/2)** – 0.45 **(1/2) + (1/2)**)	1,000
Class 1 secondary **(1/2)** 1,000 × 13.8%* **(1/2)***	138
Manager:	
Car benefit: (£40,000 **(1/2)** - £5,000 **(1/2) + (1/2)**) × 5% **(1/2)**	1,750
Class 1A **(1/2)** 1,750 × 13.8%*	242

(5 marks)

2) **Share Incentive Plan**

The SIP must be open to all employees including part-time employees **(1/2)**. Therefore, employees who only work at weekends cannot be excluded / the operation director's suggestion would not be allowed **(1/2)**.

A qualifying period of employment can be included in the plan **(1/2)** but its maximum length is 18 months so the HR director's suggestion would not be allowed **(1/2)**.

Pilde plc must set a holding period for which shares awarded must be held in the plan **(1/2)** and this can be up to five years so the managing director's suggestion would be allowed **(1/2)**. However, if the employee leaves the company within this period, this restriction no longer applies **(1/2)**.

The shares can be awarded based on performance of the locations (the finance director's suggestion) **(1/2)** provided employees within each location are awarded shares on the same terms **(1/2)**.

(maximum 4 marks)

3) **Corporation Tax return amendment and enquiry**

HMRC can amend the return for an obvious error within nine months **(1/2)** of the actual filing date, so by 28 February 2025 **(1/2)**.

The return was due for submission by 31 March 2024 **(1/2)** being the later of three months from the date the notice to deliver the tax return was received **(1/2)** and 12 months after the end of the accounting period **(1/2)**.

As the return is late, the deadline for opening an enquiry is 12 months from the quarter date following the actual filing date **(1/2)** being 31 July 2025 **(1/2)**.

(maximum 3 marks)

Total 12 marks