

Institution **CIOT - ATT**
Course **ATT Paper 3 Business Compliance**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

| Count (s) | Word (s) | Char (s) | Char (s) (WS) |
|------------|------------|------------|---------------|
| Section 1 | 172 | 872 | 1035 |
| Section 2 | 139 | 583 | 716 |
| Section 3 | 199 | 817 | 1013 |
| Section 4 | 139 | 588 | 722 |
| Section 5 | 57 | 225 | 273 |
| Section 6 | 79 | 336 | 413 |
| Section 7 | 16 | 77 | 89 |
| Section 8 | 48 | 243 | 279 |
| Section 9 | 64 | 283 | 320 |
| Section 10 | 138 | 595 | 731 |
| Section 11 | 114 | 548 | 654 |
| Section 12 | 59 | 219 | 269 |
| Section 13 | 88 | 348 | 432 |

Note to examiner:

You will see at the bottom of these sheets 2 long messed up tables, im not sure why that error was happening. It happened around Q13. I tried but could not correct the error or delete it. Therefore I reduced the number of tables I was using (hence some calculations are in regular lines) and have tried to separate questions using *****.

Please understand due to time pressure I could not spend too much time trying to correct the mistake, so apologies in advance if it was a simple fix.

1 - This is a multiple supply which means can apportion into individual elements and then charge VAT on each element accordingly.

The conversion of a non-residential building into flats will qualify for the reduced rate of VAT at 5%.

The construction of a residential building is zero-rated (0%)

The mobility aid installations will also be reduced rated at 5%.

Joinery work in both buildings will be standard rated and so will be charged at 20% VAT.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

As Anika has provided Gerard with a part payment, these must be allocated to the earliest invoices first, as the £1,800 payment has not been allocated by Anika to a specific invoice.

Therefore the £1,800 is offset against the whole of the 8 August payment, and the remaining £600 must be offset against the 25 August payment.

As he has paid all the output VAT over to HMRC, he can claim bad debt relief on any of the debt which is at least 6 months old, from the date of invoice in this case as that is later. Therefore all the remaining debt on the VAT inclusive amounts can be written off. This meansL

25 August - (1020 - 600) = £420 eligible for bad debt relief

1 September - £600

8 September - £400

Total = £1,420

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

The VAT return is due one month and 7 days following the end of the VAT period.

The return for 31 March is late as was due by 7 May. A penalty point will be awarded as it was late.

Further penalty points will be issued in relation to 30 September 2023, 31 March 2024, 30 June 2024. After the late return of the VAT return due for 30 June 2024 (due 7 August 2024), this will be four penalty points. A financila penalty of £200 can be imposed. A further £200 penalty will be issued for every further late return:

This will apply to the return related to 30 September 2024, as they must file it by 7 November in order to avoid a further £200 penalty. They will not get further penalty points, but each penalty point remeains in place for 2 years. As they have 4 penalty points, in order to reset to zero they must file four VAT returns on time and all VAT returns for the last 2 years must be submitted (do not have to be all on time).

The £200 penalty (and potnetial further £200 penalty) must be paid within 30 days.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Amira -

Her period of incapacity to work is 14 days, which is more than the 4 day requirement. The qualifying days in the PIW are 4 days, as these are her normal work days. However, we must exclude "waiting days" which is 3 days meaning she has no qualifying statutory sick pay for the remaining days. She does meet the minimum £123 per week threshold, however she is still not eligible for statutory sick pay.

Binger:

Period of incapacity is 10 days (5 March to 14 March). He also meets the minimum £123 per week condition. Her normal working days in this period are 8 days. We then must exclude the first 3 days so we are down to 5 days. The remaining 5 days he is entitled to sick pay of £109.40 per working week:

= £109.40

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

First we must gross up the amounts:

$$£235 \times 30 \times 100/80 = £8,812.50$$

$$£235 \times 40 \times 100/60 = £15,666.66$$

$$£235 \times 10 \times 100/55 = £4,272.72$$

$$\text{Total} = 28751.88$$

$$\text{Less cost: } £235 \times 80 = (£18,800)$$

$$\text{Income tax due} = £9,951.88$$

Class 1B of 13.8% due on grossed up amount:

$$13.8\% \times £28,751.88 = £3,967.76$$

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

1 - in order to correctly register the scheme they must certify that the qualifying conditions are met to be tax-advantaged. Must be registered online with HMRC by 6 July following the end of the tax year, so 6 July 2023. Must also submit an annual return by 6 July 2023.

2 - as they have not been registered with HMRC their return can contain a material innaccuracy and so a penalty of up to £5,000 can be levied.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Salary: 3,200
Less threshold: (1834)
= 1366

£1366 x 6% (as postgraduate) = £81.96 each month

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

| Reaason | £ Amount | |
|--|----------|--|
| Jermaines flights are exempt as he us travelling to/from the UK taking up/ceasing employment wholly overseas | 0 | |
| Hotel accomodation: relief is available as his employer are refunding | 0 | |
| Flights for Tamar: over 18 so taxable | 2,000 | |
| Coat: | 500 | |
| Total subject to Income tax = | £2,500 | |

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Amount due in each installment:

$$3/12 \times \text{£}8\text{m} = \text{£}2\text{m}$$

| | £ Amount | £ Net | Interest |
|--------------------|----------|--------------------------|--------------------------|
| 1st installment | 1.5m | Underpayment £500,000 | 5% x 500k = £25,000 |
| 2nd installment: | 4.3 | Overpayment 300k | Credit: 3.75% = 11250 |
| 3rd | 5.9 | underpaid 100k | 5% = 5k |
| 4th | 8 | Balance | 0 |
| Interest payable = | | | 18,750 |

Payment dates are:

July 14 2023
October 14 2023
January 14 2024
April 14 2024

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Where a close company (less than 5 shareholders have a majority of the business as is the case here) makes a loan to a shareholder, there is an automatic charge of 33.75% on the loan called a s.455 charge. The amount of the loan is taken as the amount still due on the last day of the accounting period (30 June) as this is lower than the amount due at the normal due date (£60,000).

$$£50,000 \times 33.75\% = £16,875$$

This is payable with the corporation tax liability for the period, 30 June 2025 (as 30 June 2024 year end). However, if a further amount of the loan is repaid or written off then the company can reclaim the amount. This reduced their corporate tax liability for the accounting period in which it is repaid or written off

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

| | | | |
|---------------------|------------|--|--|
| Taxable profits: | £7,400,000 | | |
| Dividends received: | £200,000 | | |
| Augmented profits: | £7,600,000 | | |

Whether a company pays by installments is based on their augmented profits.

A large company is large if its augmented profits are greater £1.5m for a 12 month period, which for 9 months is: $9/12 \times 1.5m = £1,125,000$

They are also not a very large company, which is £20m over 12 months: $£20m \times 9/12 = £15,000,000$

This means they would have had to, however as they were not a large company in the previous accounting period (200,000 under), and their augmented profits are less than £10m ($£10m \times 9/12 = 7.5m$), this means that they are not required to make installment payments.

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

As he is self-employed, he needs to pay class 2 and class 4 NIC.

Class 2: $£3.45 \times 52 = £179.40$
Less period not working: $12 \times £3.45 = (£41.40)$
= £138 class 2 due

Class 4:
 $37700 @ 9\% = £3393$
 $(75000 - 50270) @ 2\% = £494.66$
Total class 4 = £3,887.66

Total NIC for period = £4,025.66

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

His first payment on account is late as it was due on 31 January 2023. The late fil

His second payment on account was on time as it was due 31 July 2023

His balanicng payment is late as it was due 31 January 2024

The late payments on account do not attract sepeate penalties, but the penalty is on how late the balancing payment is: as it was more than 30 days late, 5% on the amount outstanding at 31 January 2024.

$£3,000 \times 5\% = £150$

-----ANSWER-13-ABOVE-----

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|------------|-------------|-------------|---------------|
| Section 14 | 1313 | 6651 | 7822 |
| Section 15 | 0 | 0 | 0 |
| Section 16 | 0 | 0 | 0 |
| Section 17 | 0 | 0 | 0 |

-----ANSWER-14-BELOW-----

1)

Inflatable ball: although technically an import, normal domestic VAT is charged on the invoice by the supplier.

Playframes: imports of goods into GB are chargeable to VAT at the same rate that would be applicable in the VAT, as therefore import VAT at 20% will be payable by Intiax, however there are ways to defer the payments. as he uses PVA the VAT is declared as output VAT on the VAT return and is not paid at the time of import.

Soft toys: normal domestic VAT is charged on the invoice by the supplier.

Gaming machinesL this is a UK place of supply and so is zero-rated by way of VAT.
Evidence of the export must be maintained eg airway bill.

| | Input | Output | |
|---|--------|--------|--|
| Ball: 15k x 1.2 = 18k. 18k - 15k = 3k VAT | £3,000 | | |
| Playframe: 30k x 1.2 = 36k = 6k VAT | | £6,000 | |
| Soft toys: 2.1k x 1.2 = 2520, = 420 VAT | | £420 | |

| | | | |
|---------|--|-----|--|
| Gaming: | | Nil | |
| | | | |

2)

First test if he passes either of the simplified de minimis tests:

Test 1: Failed as his total input VAT averaged over 12 months is £944.16 which is above £625.

Test 2 - Failed as his total input tax less input tax attributable to taxable supplies is averaged as £687.50 which is above £625.

| | £ Taxable | £ Non taxable | £ Unassigned | |
|------------|-----------|---------------|--------------|--|
| Taxable | 3080 | 2500 | | |
| 72% x 5750 | 4140 | | | |
| 28% x 4140 | | 1159.20 | | |
| Total = | £7,220 | £3,659.20 | | |

Her output tax was: $20\% \times 58000 = 11600$

Less input recoverable: (£7,220)

Input tax payable = £4,380

Workings:

$58,000 / (58000 + 23,500) = 0.71165$

$\times 100\% = 71.165\%$, rounded up to 72%

(we dont include fitness equipemnet as it is capital)

3)

Standard rated sales including VAT = $58,000 \times 1.2 = £69,600$

Gross daily takings: $102k/90 = £1,133.33$

$69,600 / (69,600 + 33,000) = 0.67836$

x 1,133.33 = £768.81 output tax

4)

To record the purchase of a car by use of director:

| | | | |
|-----|--------------------|---------|--|
| Dr: | Purchases/expenses | £19,000 | |
| Dr: | VAT control a/c | £3,800 | |
| Cr: | Bank/creditors | £22,800 | |

To record the entertaining: this is not recoverable and so we do not record it.

| | | | |
|--------------------|--------------------|--------|--|
| Dr: | purchases/expenses | £1,250 | |
| Dr | VAT c/a | £250 | |
| Cr Bank/creditors: | Bank / creditors | £1,500 | |

Question 15:

1)

The introduction fee is permitted 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, and that before accepting instructions a member has disclosed to the prospective client in writing, the amount and nature of the £500 fee and the identity of the third party involvement. It may not be acceptable to accept one of the new clients if there was undue pressure applied, or there was no disclosure of the arrangement and the nature of the fee.

2)

They must be registered with HMRC as an employer, and deduct PAYE on her earnings, in order to withhold the correct amount of income tax and national insurance. This must be submitted via an FPS Return on or before the payments are made to her. They must also report her benefits which are not payrolled on a form P11D to HMRC and the employee by 6 July 2023, and they must also provide the employee with a Form P60 by 31 May 2023 which outlines total pay (including value of taxable benefits in the payroll) and deductions.

3)

| Item | £ Amount | | |
|---------------------|------------|--|--|
| Salary | £55,833.33 | | |
| Removal costs: | £1,000 | | |
| Accomodation: | £10,781.20 | | |
| Household expenses: | £6,200 | | |
| Employment income = | £73,814.53 | | |

Workings:

$$67,000 \times 10/12 = 55,833.33$$

Relocation: the excess over the 8,000 allowance is taxable. This is eligible for voluntary payrolling

Accomodation: Not exempt as not work related. Must take market value as more than 6 years since purchase:

$$(650,000 - 75,000) \times 2.25\% \times 10/12 = £10,781.20$$

$$\text{Add annual value: } £13,000 \times (10/12) = £10,833.33$$

$$= 21614.53$$

All her benefits except for the accomodation can be voluntarily payrolled.

4) In order to verify the status they will need to check with HMRC if they are registered, and if they have gross payment status it will need their name / company name, national insurance number if they are a sole trader, UTR number, as well as nominated partner detail if they are a partnership.

Sandpiper Ltd will also need their own UTR and employer reference number.

16)

1)

| Item | Taxable | Not taxable | |
|---|---------|-------------|--|
| Salary: | £2,500 | | |
| Stat red: | | £1,800 | |
| PENP: | £5,000 | | |
| Further payment (this is partially taxable) | £6,800 | £25,200 | |
| Equipment: | £3,100 | | |
| Total = | £17,400 | £27,000 | |
| Therefore we do the standard method: | | | |

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question- _15_

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question- _16_

-----ANSWER-16-ABOVE-----

-----ANSWER-17-BELOW-----

Answer-to-Question- _17_

Answer-to-Question- _17_

Workings:

The further payment is partially exempt as he is entitled to £30,000 allowance. The statutory redundancy uses up part of this. In addition we must take £5,000 as PENP as he was not paid for his notice period:

£30,000
PENP: (£5,000)
Stat red: (£1,800)
= £25,200

2)

This is the transition year so transition rules apply:
Basis period: 1 October 2022 - 31 December 2023
Standard period: 1 October 2022 - 30 September 2023
Transition period: 1 October 2023 - 31 December 2023

Standard period: £90,000
Transition Period: £40,000

Less overlap profits: £40,000 - £4,900 = £45,100

£45,100 + £90,000 = £135,100

45,100 / 5 = £9,020

2023/24 = £90,000 + £9,020 = £99,020.00

2022/23 WE USE THE BASIS PERIOD YEAR ENDED 30 September 2022 = £120,000

3)

As Janaina is the sole director and shareholder, Skilzup ltd is a small company for the purposes of off-payroll legislation. As a result, it is the responsibility of Janaina (the worker) to determine whether the status rules apply. This would be done through a status determination statement.

4)

The deemed salary payment will be included as employment income on her self-assessment tax return and she will receive credit for the PAYE deducted.

5) As a sole trader she would be personally liable for any debts and should the debts exceed the assets of the business, a creditor could seek to recover a debt from your personal assets which could lead to bankruptcy. As a company is a separate legal entity, it is liable for its own debts. Liability for the company debts do not extend beyond the shareholders although directors like herself often have to guarantee loans and can become liable if they allow the company to trade insolvently.

17)

As regards the mileage payments:

Paid to associates: $50p \times 20k \text{ miles} = \text{£}10,000$

Entitlement: $45p \times 20k \text{ miles} = (\text{£}9,000)$

Excess subject to tax: $\text{£}1,000$

Cars:

List price: $\text{£}40,000$

Less employee contributions: $(\text{£}5,000)$ *maximum deduction
 $= \text{£}35,000$

CO2 Calc: 5%

$\text{£}35,000 \times 5\% = \text{£}1750$ per year per employee

An employer pays class 1A national insurance on the car and class 1 secondary on the mileage benefit which is:

Fuel: $13.8\% \times \text{£}1,000 = \text{£}138$ (provided the employee earns at least $\text{£}9,100$)

Car: $13.8\% \times \text{£}1750 = \text{£}241.50$

2)

Operations director - this is not allowed under SIP rules, as all employees must be offered

shares on similar terms and this includes part-time employees who must be invited to join (although those with less than 18 months service can be excluded).

HR director: This is also not allowed. They are however allowed to exclude participants who have worked at the company for less than 18 months.

Managing director: This would be allowable as long as all employees are offered this term, as the terms be similar.

Finance director: This would not be allowable as this means not all employees are being offered the shares on similar terms.

3)

A - HMRC can ammend an obvious error within 9 months of receiving the return. Therefore by 28 February 2025 (leap year).

B - HMRC can open an enquiry by the later date of the first anniversary of the actual submission date (31 May 2025) and as the return was filed late, the quarter day following the first anniversary of the actual filing date (31 July 2025).

To record the repairs: