

# Tolley<sup>®</sup> Exam Training

**ATT PAPER 3**

**BUSINESS COMPLIANCE**

**PRE REVISION QUESTION BANK**

**FA 2024 & F(No. 2)A 2024**

May and November 2025 Sitzings

**PQ863**

**Tolley<sup>®</sup>**

Tax intelligence  
from LexisNexis<sup>®</sup>

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## INTRODUCTION

This Pre Revision Question Bank contains exam standard questions all with answers updated to Finance Act 2024 and Finance (No. 2) Act 2024. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2025** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

### Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written **questions** carrying from 15 to 25 marks each, usually split into shorter subsections with marks allocated to each subsection, with no question choice. There are **98 marks for technical content and 2 marks for presentation skills** available.

### Presentation Skills Marks

The presentation skills marks on this paper will be awarded as follows:

**2 marks** - Presentation is very good. Full sentences are used where appropriate throughout. Answers flow well and are in a logical order. Explanations clearly relate to the question scenario.

**1 mark** - Broadly the presentation is acceptable. Full sentences are used where appropriate, although some minor lapses are acceptable. Answers generally flow well and in a logical order. Explanations contain a reasonable reference to the question scenario.

**0 marks** - There is little effort to use full sentences where they would be expected. The answers do not flow well, with ideas not presented in a logical order. Explanations are mainly regurgitation of legislation/ learning materials with limited reference to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

### Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

### Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated to that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

### **Reviewing the model answer**

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

## **ETHICS**

From May 2025 onwards ATT Papers 1 to 6 are each expected to each contain questions that have parts testing Ethics topics for between 3 and 7 marks in total across the paper.

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6<sup>th</sup> edition) that are included in the Papers 1 to 6 syllabuses are:

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act
Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors – Members in business
Chapter 25	Help sheet D: Requests for data by HMRC
Chapter 26	Help sheet E: Members' personal tax affairs

The required depth of knowledge is “Principles” ie candidates are expected to have an awareness that a principle exists and its main thrust.

As the exams are open book as copy of the ATT/CIOT Ethics text book can be referred to during the exam and so you should either have a hard copy on your desk or have access to the e-book version in MyLiveBook either on your main screen or on a second screen/device.

To get you familiar with the type of questions that may be examined, elements of ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There are also some short questions for Ethics at the back of this bank. Attempting these questions will be good preparation for the exams.

## CONTENTS

### ATT TAX TABLES 2025

#### QUESTIONS FOR PAPER 3

No	Name	Topic	Marks
1	Build Ltd	CIS - admin, deduction, VAT CT - filing/payment deadline, late filing penalty	16
2	Neville	Off payroll - small client, deemed payment Employment status	15
3	Holly	VAT - reg, records, due dates, invoices, overseas Sole Trader - notification, filing deadlines, records	20
4	Teresa	VAT - PE, bad debt relief ST - IT return/pay, penalties	18
5	Scott	Employment taxes - benefits, NIC	17
6	Baines & Co	VAT - overseas, PE Ethics - new clients	18
7	Quality Build Ltd	CIS - calc, admin, penalties Employment taxes - PSA, expenses Ethics - confidentiality	20
8	Thrones Ltd	Employment taxes - domicile, OWR, travel expenses	15
9	Wolf Ltd and Vino Ltd	Employment taxes - EMI, SAYE, expenses, benefits, PSA, termination	19
10	Martin Ltd	Benefits CT - CT liability, admin, CT61	16
11	Dodgy Ltd	CIS - late return, invoice Benefits CT - close co loan	18
12	Goffin Ltd	Share schemes - SIP, CSOP, EMI features, NIC, admin	15
13	Harmony Associates	VAT - international supplies of goods Overseas - residence, domicile, expenses Ethics – Engagement letter	16
14	Wheelfitter Ltd and Maxwell	VAT - TOGC, VAT group, calc, international	19
15	Fargo Ltd	Termination, off payroll large client, SMP, SSP	15

#### ETHICS FOR ATT PAPER 1-6

No	Name	Topic
1-20	n/a	Various short Ethics questions



# ATT EXAMINATIONS

2025

## TAX TABLES

### INCOME TAX

	2024/25
<b>Rates</b> (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
<b>Thresholds</b>	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	500
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
<b>Scottish Tax Rates and Thresholds</b> (Note 2)	
£	%
1 – 2,306	19
2,307 – 13,991	20
13,992 – 31,092	21
31,093 – 62,430	42
62,431 – 125,140	45
125,140+	48
<b>Reliefs</b>	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	3,070
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000
De minimis trusts amount	500

- Notes:** (1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not Scottish) taxpayers.
- (2) Scottish taxpayers pay Scottish income tax on non-savings income.
- (3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	Maximum subscription
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

# ATT EXAMINATIONS

2025

## TAX TABLES

### Pension contributions

Basic amount qualifying for tax relief £3,600

	<b>Annual allowance</b> (Note 1) £	<b>Minimum pension age</b>
2024/25	60,000	55
Lump sum allowance		£268,275

**Note: (1)** The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

### ITEPA mileage rates

#### Vehicles

Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

**Note: (2)** For NIC purposes, a rate of 45p applies irrespective of mileage.

### Company cars and fuel – 2024/25

	<b>Electric range (miles)</b>	<b>Car benefit %</b> (Note 3)	
<b>Emissions</b>			
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

**Note: (3)** 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

**Fuel benefit base figure** £27,800

### Taxable benefits for vans – 2024/25

	<b>£</b>
Van benefit – No CO <sub>2</sub> emissions	Nil
Van benefit – CO <sub>2</sub> emissions > 0g/km	3,960
Fuel benefit	757

**Official rate of interest - 2024/25** 2.25%



# ATT EXAMINATIONS

## 2025

### TAX TABLES

#### Childcare

Employer supported childcare – basic rate taxpayer (Note 1) £55 per week

**Note:** (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

#### STUDENT AND POSTGRADUATE LOAN RECOVERY

##### Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£2,082 per month	£2,274 per month	£2,616 per month
Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.			

##### Postgraduate Loans

Employee earnings threshold £1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

#### STATUTORY PAYMENTS

Statutory sick pay	Weekly rate
Average weekly gross earnings £123.00 or more	£116.75
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £184.03 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £184.03

#### QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2025	£19,360 per year	£405 per week	£485 per week

#### CHILD BENEFIT

Year to 5 April 2025 Rates	Weekly rate
First child	£25.60
Each subsequent child	£16.95

Child benefit charge	Withdrawal rate
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

#### HMRC INTEREST RATES (assumed)

Late payment interest	7.75%
Interest on underpaid corporation tax instalments	6.25%
Repayment interest	4.25%
Interest on overpaid corporation tax instalments	5.00%

# ATT EXAMINATIONS

## 2025

### TAX TABLES

#### NATIONAL INSURANCE CONTRIBUTIONS

2024/25

##### Class 1 limits

	Annual £	Monthly £	Weekly £
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

2024/25

##### Employment allowance

Per year, per employer £5,000

##### Class 1 primary contribution rates

Earnings between PT and UEL 8%  
Earnings above UEL 2%

##### Class 1 secondary contribution rates

Earnings above ST (Notes 1 & 2) 13.8%

**Notes:** (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

##### Other contribution limits and rates

Class 1A contributions 13.8%  
Class 1B contributions 13.8%

##### Class 2 contributions

Rate £3.45 pw  
Small profits threshold (Note 3) £6,725 pa

**Note:** (3) Self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

**Class 3 contributions** £17.45 pw

##### Class 4 contributions

Annual lower profits limit (LPL) £12,570  
Annual upper profits limit (UPL) £50,270  
Percentage rate between LPL and UPL 6%  
Percentage rate above UPL 2%

#### SIMPLIFICATION MEASURES

'Rent-a-room' limit £7,500  
Property allowance/Trading allowance £1,000

# ATT EXAMINATIONS

2025

## TAX TABLES

### FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses		
Car or van	First 10,000 business miles	45p per mile
	Additional business mile	25p per mile
Motorcycles		24p per mile
Business use of home	25 – 50 hours use	£10 per month
	51 – 100 hours use	£18 per month
	101+ hours use	£26 per month
Private use of business premises	No of persons living there:	
	1	£350 per month
	2	£500 per month
	3+	£650 per month

### CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

- Notes:** (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars).  
 (2) The main pool rate applies to cars with CO<sub>2</sub> emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).  
 (3) The special pool rate applies to cars with CO<sub>2</sub> emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

### 100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.

New zero-emission goods vehicles (until 1 or 6 April 2025).

New cars if the car either emits 0g/km of CO<sub>2</sub> or it is electrically propelled (until 1 April 2025).

Electric vehicle charging points expenditure (until 1 or 6 April 2025).

### Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards.

FYA for assets in main pool 100% (130% for expenditure 1 April 2021 to 31 March 2023)

FYA for assets in special rate pool 50% (from 1 April 2021)

### VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

#### Limits

Annual registration limit	£90,000
De-registration limit	£88,000

#### Thresholds

	Cash accounting	Annual accounting
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

### ADVISORY FUEL RATES (as at 1 March 2024)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	14p
Over 2000cc	24p	21p	Over 2000cc	19p

Electricity rate 9p

# ATT EXAMINATIONS

2025

## TAX TABLES

### CORPORATION TAX

Financial year	2024	2023
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%

### Research and development expenditure

Financial year	2024
RDEC (merged scheme RDEC) (Note 1)	20%
Alternative relief for loss making R&D intensive SMEs (Note 2):	
Enhanced R&D Intensive Support (ERIS) - total relief	186%
R&D tax credit for R&D intensive SME losses	14.5%

- Note:** (1) From 1 April 2024 the merged scheme RDEC is available to all companies.  
 (2) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

### INHERITANCE TAX

<b>Death rate</b>	40% (Note 3)	<b>Lifetime rate</b>	20%
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- Note:** (3) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

#### Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

#### Residence nil rate bands (Note 4)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

- Note:** (4) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

#### Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

#### Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

#### Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts – Child	£5,000
– Grandchild or remoter issue or other party to marriage	£2,500
– Other	£1,000

# ATT EXAMINATIONS

2025

## TAX TABLES

### CAPITAL GAINS TAX

Annual exempt amount	2024/25 £3,000
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#### CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%

#### CGT rates for trusts

Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%

#### CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%
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#### Business Asset Disposal relief (BADR)

Relevant gains (lifetime maximum) (Note 6)	£1 million
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#### Investors' relief (IR)

Relevant gains (lifetime maximum)	£10 million
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- Notes:**
- (1) For individuals, gains are taxed as if they are the top slice of income.
  - (2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
  - (3) The remaining basic rate band is calculated as £37,700 (2024/25) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
  - (4) The rate is 18% if the gain is in respect of a residential property
  - (5) The rate is 24% if the gain is in respect of a residential property
  - (6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

### Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

# ATT EXAMINATIONS

2025

## TAX TABLES

### Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	—	—	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

## QUESTIONS

1. You receive the following email from Zohar Khan, one of the directors of Build Ltd which is a new client within the construction industry. Build Ltd is not a large or very large company for the purposes of the payment of corporation tax. It is registered for VAT.

"I would be very grateful if you could confirm how we should pay subcontractors in the Construction Industry Scheme at our meeting next week. We have received queries from some new subcontractors and I want to make sure I explain the procedures to them correctly. Our sub-contractors are VAT registered and I understand that the domestic reverse charge applies.

I have included below an example of the type of invoice we receive from subcontractors. Can you please explain how we would calculate what the total amount subject to deduction would be?

- 1) Materials: £21,000. The subcontractor has indicated that they mark materials up by 20% before selling them to us.
- 2) Labour: £10,000
- 3) Hire of scaffolding: £2,500. The subcontractor owns the scaffolding.
- 4) Travel expenses: £450
- 5) Total: £33,950

One other thing. As you know, before we appointed you as advisers, I was responsible for filing the company tax returns. I only got round to filing the tax return for the year ended 31 December 2022 on 15 August 2024. I have today received a late filing penalty notice but I have no idea whether the amount being charged is correct.

Most of the tax due for the year ended 31 December 2022 was paid on 1 January 2024 but the final balance was paid when I filed the return.

Can you explain how a late filing penalty is calculated please?"

**Requirement:**

- 1) **Explain the procedure to follow before making payments to subcontractors. Your answer should include the rates of deduction that must be made.** (3)
  - 2) **Outline the contractor's responsibility to issue payment statements, including the penalties for non-compliance.** (2)
  - 3) **Explain how to calculate the total amount subject to deduction on the sample invoice.** (3)
  - 4) **Explain how VAT will be accounted for by the sub-contractors and Build Ltd.** (2)
  - 5) **State by when the corporation tax return for the year ended 31 December 2022 should have been filed and the due date for payment of the tax.** (1)
  - 6) **Explain how penalties for late corporation tax returns are calculated and state when a penalty should be paid in order to avoid an interest charge.** (5)
- Total (16)

2. Neville is employed as a computer consultant by Wizards Ltd, in which he owns 100% of the shares. Neville is the only employee. During 2024/25, he was engaged by Cauldron Ltd under a contract between Wizards Ltd and Cauldron Ltd. The contract had a value of £85,000. Cauldron Ltd is a small company for the purposes of the off-payroll working legislation.

During 2024/25, Neville received a salary from Wizards Ltd of £32,000 which was taxed via Pay As You Earn.

Neville also incurred allowable travel expenses of £2,500 in respect of the contract with Cauldron Ltd and has to pay professional subscriptions every year of £3,200.

As the contract is now complete, Neville is considering winding up Wizards Ltd and operating as an independent contractor instead. Cauldron Ltd has indicated that it can give Neville work for the foreseeable future, but it would be on a self-employed basis as costs need to be kept to a minimum.

The terms are that Cauldron Ltd will give Neville an itinerary of work every week and he will work the company's set hours of operation which are 9am – 5pm for five days per week. Cauldron Ltd will supply Neville with all equipment, a company van and a company uniform. The contract will be between Cauldron Ltd and Neville personally, Neville will not be able to delegate work to anyone else. However, Neville will not be entitled to holiday pay or sick pay.

**Requirement:**

- 1) **Explain when a corporate client will qualify as small for the purposes of the off-payroll working legislation.** (3)
- 2) **Calculate Neville's deemed employment income and his employer's National Insurance Contributions for 2024/25.** (4)
- 3) **Explain Wizards Ltd's PAYE reporting and payment obligations to HMRC in respect of the deemed salary payment.** (2)
- 4) **Explain three factors that will be considered under the economic reality test to determine if Neville is an employee or an independent contractor of Cauldron Ltd.** (6)

Total (15)



3. Assume that today's date is 1 November 2024.

Holly Mae is going to start up her own business supplying a variety of computer games, accessories and spare parts. Holly is starting the business as a sole trader and plans to start trading from 1 December 2024. She has approached you for some help in relation to her obligations for income tax and VAT. All of Holly's sales and purchases will be standard rated for VAT purposes.

As this is her first business venture, she has no experience of dealing with HM Revenue and Customs. Holly has been an employee up until now and has not been required to file tax returns, with her income tax liability being collected via PAYE. Holly is not sure by when she needs to notify HMRC of the new business.

In addition, Holly is unsure of the VAT registration requirements and has asked you to advise her on the differences between voluntary and compulsory registration. Her turnover is likely to grow substantially within the first three months of operation and she estimates that by 25 February 2025 it will be in the region of £90,000.

Holly finds the rules regarding filing of returns and the records she needs to keep confusing. She also needs assistance regarding the type of information which she needs to display on her invoices.

Holly's customers will be mainly based in Great Britain (GB), but she has recently negotiated a contract with a large business based in Italy to supply them with printer cartridges every month, starting from 1 March 2025. Some of Holly's supplies will be imported into GB from Canada for onward sale to GB customers.

**Requirement:**

- |   |      |
|---|------|
| 1) Explain by when Holly must notify HMRC for income tax purposes that she has started to trade.  | (2)  |
| 2) Explain the deadlines for filing income tax returns and state when the tax liability for 2024/25 will be due for payment.                                | (3)  |
| 3) State how long records must be retained by a self-employed individual for income tax purposes.   | (1)  |
| 4) Explain when Holly may or must register for VAT and from which date her registration will commence.  | (3)  |
| 5) Briefly outline the record keeping requirements for VAT. You should include two examples of the types of records which Holly must keep.                  | (2)  |
| 6) Describe how and when Holly must file her VAT returns and pay any VAT due.   | (3)  |
| 7) State six items of information which must be contained in the sales invoices of a VAT registered trader.   | (3)  |
| 8) Briefly explain how the import of goods from overseas into GB and the export of goods from GB to the overseas customer will be treated for VAT purposes. | (3)  |
| Total   | (20) |

4. Your firm acts for Teresa in respect of her VAT affairs.

Teresa has been in business as a sole trader for many years and undertakes a range of activities including publishing, education and private lectures. She is VAT registered and makes both taxable and exempt supplies.

Quarter ended 30 September 2025

For the quarter ended 30 September 2025, the following activity took place:

Income

	<u>Total Turnover</u>	<u>Taxable</u>	<u>Exempt</u>
	£	£	£
Quarter ended 30 September 2025	55,000	35,500	19,500

Expenses

Going through the purchase ledger, input tax attributable to taxable supplies was £2,950, input tax attributable to exempt supplies was £1,650 and unattributed input tax amounted to £1,050.

Additional items

On 1 July 2025, Teresa received £1,000 as a part payment for an outstanding debt. Teresa had supplied standard rated services to Timble Ltd which amounted to £1,800 inclusive of VAT in October 2024, on 30 day payment terms. Payment had never been made so Teresa wrote off the amount during the quarter ended 30 June 2025.

In addition to the above purchases:

- 1) Teresa spent £2,500 in an attempt to win new business by entertaining various clients; and
- 2) She purchased several standard rated items for general office use which cost £5,400 inclusive of VAT. She estimates that around 20% of their usage will be for her own private purposes.

Teresa has been very busy and did not file her 2023/24 online income tax return until 1 July 2025. She also paid the balancing payment for 2023/24 and the first payment on account for 2024/25 on 1 July 2025. She would like an explanation of the interest and penalties that she has been charged as a result.

**Requirement:**

- 1) Calculate the amount of input tax recoverable by Teresa for the quarter ended 30 September 2025, using the standard method of partial exemption. Ignore the additional items and the simplified partial exemption tests. (3)
  - 2) Explain what effect the additional items will have on the figure of recoverable input tax calculated above. (5)
  - 3) Explain the conditions which need to be met in order to claim bad debt relief. (5)
  - 4) State the due date for the 2023/24 income tax return and the due date(s) for the balancing payment for 2023/24 and the first payment on account for 2024/25. (1)
  - 5) Explain how any interest and penalties that Teresa has been charged will have been calculated. (4)
- Total (18)

5. Scott has been an employee of The Grapevine Ltd, an unlisted company, for the past ten years. Scott has a salary of £70,000 per annum and in 2024/25 he was provided with the following:
- 1) A company car registered with a list price of £15,000, which was purchased for £12,000. The car has a diesel engine and CO<sub>2</sub> emissions of 70g/km. It meets the RDE2 standard. Scott was required to make a £1,000 contribution towards the cost of the car and £50 is deducted from his salary each month towards the private use of the vehicle. As he is a frequent traveller, he is provided with a fuel card which he uses to purchase all of his diesel. As he pays towards the private use of the vehicle, The Grapevine Ltd does not require him to pay towards the cost of fuel.
  - 2) A company mobile phone on which he is permitted to make personal calls. The mobile phone contract is £250 per annum and his phone bill was £500.
  - 3) A season ticket for the car park near the office at a cost of £2,000 per annum.
  - 4) Gift vouchers of £500 in recognition of his long service with the company.
  - 5) Gym membership at a local health club costing £30 per month.
  - 6) Bonus of shares in The Grapevine Ltd, worth £5,000.
  - 7) Employer pension contributions totalling 5% of his salary. Scott is required to contribute a further 5% of his salary.

The Grapevine Ltd has not registered with HMRC to include any benefits in payroll.

Helen is also an employee of The Grapevine Ltd. She earns £55,000 per annum. Helen is required to contribute 5% of her salary into the company's occupational pension scheme. The Grapevine Ltd also provides her with gym membership at a cost of £30 per month and childcare vouchers to the value of £55 per week. Helen joined the childcare voucher scheme in 2017/18.

**Requirement:**

- 1) **Calculate the National Insurance Contributions payable by Scott and his employer in respect of the benefits provided.** (9)
- 2) **Briefly explain how these National Insurance Contributions will be reported to HM Revenue & Customs and by what date payment is due.** (3)
- 3) **Briefly explain the assessment that should be carried out in respect of the childcare vouchers provided to Helen.** (1)
- 4) **Calculate the relief available to Helen in respect of her childcare vouchers and state any reporting requirements for Income Tax and National Insurance Contributions purposes.** (4)

Total (17)

6. You are a trainee tax adviser at Baines & Co. Your manager has recently returned from a series of meetings as Baines & Co is trying to increase its number of indirect tax clients. Three businesses in particular are likely to use Baines & Co in the future for advice. Your manager has given you the following briefing on each of the potential clients:

Felix Oliver

Felix Oliver is a manufacturer of standard rated electrical goods based in GB. Felix has recently started to import from, and export to other countries, including Northern Ireland.

Aoife Hassan

Aoife Hassan is a VAT registered beautician who is based in the UK. Her friend, Bella, operates a business from a salon in Florida, USA providing beauty services. Aoife travels to Florida for two weeks per year to assist Bella during the busy summer period and gives clients treatments in Bella's salon. Aoife invoices Bella's business for her services.

Whilst in Florida, Aoife also sees private clients, offering treatments to them in their homes.

Mae Emmett

Mae Emmett is a partially exempt trader who made the following supplies for the year ending 31 March 2025:

	£
Standard rated supplies (excluding VAT)	62,000
Exempt supplies	<u>25,000</u>
	<u>87,000</u>
Mae's input tax for the year:	
Wholly attributable to taxable supplies	17,000
Wholly attributable to exempt supplies	8,000
Non-attributable	<u>1,200</u>
	<u>26,200</u>

Your manager has asked you to prepare some briefing notes so he can consider the issues and advise each client.

**Requirement:**

- 1) Explain how the import and export of goods by Felix Oliver to and from other countries including Northern Ireland will be treated for VAT purposes. (5)
- 2) Explain the place of supply of services by Aoife Hassan to the salon in Florida. (1)
- 3) Explain the VAT treatment of the services provided by Aoife Hassan to private clients in Florida. (1)
- 4) Describe the simplified partial exemption tests and show how they would apply to Mae Emmett for the year ending 31 March 2025. (4)
- 5) Calculate the amount of VAT recoverable by Mae Emmett for the VAT year ending 31 March 2025 using the standard method of partial exemption. (4)
- 6) List three factors which the Association of Taxation Technicians' Professional Rules and Practice Guidelines state Baines & Co will need to consider before accepting new clients. (3)

Total (18)

7. You have recently taken on a new client, Quality Build Ltd.

Quality Build Ltd provides construction services which fall within the scope of the Construction Industry Scheme. It has registered with HMRC as both a contractor and a subcontractor and holds gross payment status.

The managing director has provided you with the following information regarding the business:

#### Payments to subcontractors

During 2024/25, Quality Build Ltd subcontracted a specialist piece of construction work to another company, Ace Ltd. Ace Ltd has never registered as a subcontractor with HM Revenue & Customs.

The invoice from Ace Ltd, received on 2 March 2025, shows the following:

	£
Labour	5,000
Materials	2,000
Travel expenses	500
Cost of plant hire	1,000
Use of Ace Ltd's equipment	<u>250</u>
Invoice total	<u>8,750</u>

Quality Build Ltd paid the invoice on 4 May 2025.

The domestic reverse charge applies.

#### Late return

Quality Build Ltd's monthly contractor return due on 19 May 2024 was filed late, due to an oversight. It was eventually filed on 2 December 2024. £8,000 of deductions were reported on the return.

#### Annual events

Quality Build Ltd holds two annual events for its 50 employees. All employees attended both events:

- a) Christmas party: All employees brought one guest each. The total cost of the event was £4,000.
- b) Trip to the races: The trip was open to employees only. The total cost of the event was £5,000.

Quality Build Ltd also holds an additional year end dinner for the directors and their spouses, at a total cost of £1,500.

90% of its employees are basic rate taxpayers. All of the directors are higher rate taxpayers.

Quality Build Ltd has entered into a PAYE Settlement Agreement with HMRC in respect of staff entertaining costs.

Expenses

Quality Build Ltd reimburses employees for genuine business travel expenses.

Quality Build Ltd's previous firm of advisers unfortunately mislaid some important documents on a train, which related to a proposed transaction involving Quality Build Ltd. As a result, Quality Build Ltd has decided to engage your firm as tax advisers.

**Requirement:**

- 1) Calculate the amount of tax deductible by Quality Build Ltd from the payment made to Ace Ltd and state the due date for its remittance to HMRC. Your answer should briefly explain how you have calculated the amount due. (4)
  - 2) Explain what information Quality Build Ltd must provide to Ace Ltd under the Construction Industry Scheme, and by when this must be provided. (2)
  - 3) State the penalties payable in respect of the late return. (3)
  - 4) Briefly explain any other potential consequences of the late Construction Industry Return made by Quality Build Ltd. (2)
  - 5) Calculate the Income Tax and Class 1B National Insurance Contributions payable for 2024/25 under the PAYE Settlement Agreement and state the due date. Your answer should briefly explain how you have calculated the amount chargeable. (4)
  - 6) Briefly explain how the reimbursement of business travel expenses should be treated for Income Tax and National Insurance Contributions purposes. (1)
  - 7) Explain the duty of confidentiality owed to clients by a member of the Association of Taxation Technicians. (4)
- Total (20)



8. Thrones Ltd, a global company, has provided you with the following information about four of its employees:

Tyrion

Tyrion is domiciled in Casterly Rock (non-UK). He has never previously been resident in the UK.

In April 2024, he was sent on a secondment to the UK for two years. Under the terms of his secondment, he will spend two months a year working in Casterly Rock and ten months a year working in the UK. All his earnings will continue to be paid by Thrones Ltd into his Casterly Rock bank account. Tyrion will claim the remittance basis for 2024/25.

Bronn

Bronn, who is not domiciled in the UK under general law, was resident in the UK in 2024/25. He was born in Casterly Rock and has been resident in the UK since 2010/11, when he was first employed by Thrones Ltd. He had not been resident in the UK before his employment with Thrones Ltd.

Eddard

In April 2024 Eddard, a UK employee earning £70,000 per annum, was sent to work overseas in King's Landing (non-UK) for nine months. Thrones Ltd provided him with a flat in King's Landing which cost £1,000 per month and Eddard met his own subsistence costs of £500 per month.

During 2024/25, Thrones Ltd also paid for two return flights from the UK to King's Landing for Eddard's wife and their daughter, Sansa. The return flights cost £200 per person. Sansa had her 18th birthday during her second visit to King's Landing.

**Requirement:**

- 1) **Briefly explain what is meant by the term 'domicile' and how domicile is acquired. You are not required to discuss deemed domicile.** (4)
  - 2) **Explain whether Tyrion can claim Overseas Workday Relief and, if so, how his earnings would be subject to UK Income Tax.** (3)
  - 3) **Explain whether Bronn is deemed domiciled in the UK in 2024/25 and state the income tax consequences if an individual is deemed domiciled in the UK.** (3)
  - 4) **Calculate Eddard's employment income for 2024/25. You should briefly explain the treatment of the expenses incurred in respect of the assignment.** (5)
- Total (15)

9. You are a tax adviser working on the following two clients:

Wolf Ltd

Wolf Ltd is a small fast growing company. The directors have ambitious expansion plans and may consider selling the company in the next few years.

Wolf Ltd is considering introducing either an Enterprise Management Incentives scheme or a Save As You Earn option scheme. Wolf Ltd currently meets the eligibility criteria for both schemes.

The directors are comparing the key features of both schemes and would like to have a high level understanding of the following points:

- a) Whether it is a requirement of either scheme that all employees need to participate;
- b) Whether it is possible to give discounts on the purchase price of the share options;
- c) Whether any Income Tax is due on the exercise of options under the schemes. The directors do not at this stage need to understand how any Income Tax due at exercise would be calculated; and
- d) What registrations or approvals are required from HM Revenue & Customs to set up these schemes.

The directors would also like you to outline the key steps in allotting and issuing shares in a private limited company.

Vino Ltd

Vino Ltd is a specialist wine company that pays for the cost of its employees travelling overseas to meet wine producers and attend international trade fairs.

Vino Ltd also provides its employees with a hamper at Christmas worth £100. It also gives them chocolates at Easter worth £10 and provides charging facilities at work for employees' electric cars.

Vino Ltd has not registered with HMRC to include any benefits in payroll.

Miranda had her employment contract terminated by Vino Ltd in December 2024. Her contract entitled her to two months' pay in lieu of notice.

As well as two months' pay in lieu of notice, Vino Ltd paid Miranda compensation for loss of office equal to her annual salary of £72,000 and paid £10,000 into her registered pension scheme.

**Requirement:**

- 1) Draft a response to each of the Wolf Ltd directors' questions.

Marks will be awarded as follows:

- a) Enterprise Management Incentives scheme. (4)
  - b) Save As You Earn option scheme. (4)
- 2)
- a) Explain the Income Tax and National Insurance Contributions consequences of Vino Ltd reimbursing business expenses (1)
  - b) Explain the Income Tax and National Insurance Contributions consequences of the provision of the Christmas hamper and the chocolates, and the provision of charging facilities, explaining how Vino Ltd can pay any tax due on behalf of its employees. (4)
  - c) Explain the amount of the termination payment made to Miranda subject to Income Tax and National Insurance Contributions. (4)
  - d) Explain Vino Ltd's reporting and payment requirements in respect of the amounts paid on termination. (2)
- Total (19)

10. You are a tax adviser working in practice. One of your clients is Martin Ltd.

#### New Employee

Martin Ltd, based in Manchester, has recently recruited Julie, their new human resources director. Julie will start work on 1 June 2025 and will be paid £60,000 per annum.

Julie has relocated from London, and Martin Ltd has agreed to reimburse her £4,000 towards the costs of removal expenses and £6,000 towards the cost of disposing of her old property.

Until Julie finds a new property, the company will allow her to use the company's own flat. The flat was purchased in April 2014 at a cost of £150,000, and its current market value is £425,000. In August 2020, the company installed a new kitchen at a cost of £10,000. The annual value of the property is £750. Julie will move in on the day she starts work.

Julie will be provided with a bus pass to travel to work, costing the company £750. Her son, aged two, will be given a free place at Martin Ltd's workplace nursery which is worth £60 per week.

A new hybrid car will be provided for Julie's private use. The car has CO<sub>2</sub> emissions of 40 g/km, an electric range of 100 miles and a list price of £24,000. The car will be available when she starts work.

Martin Ltd will also provide Julie with an interest-free loan of £14,000 when she starts work. Julie has agreed to repay £2,000 on 1 December each year.

Martin Ltd has not registered with HMRC to include any benefits in payroll.

#### Corporation Tax

Martin Ltd had the following income in the year ended 31 December 2024:

	£
Trade profit	600,000
UK property business income	20,000
Non-trading profit (loan relationship)	10,000

#### Accounting for Income Tax

Martin Ltd had the following amounts in the quarter ended 31 March 2025:

	£
1.2.25      Debenture interest expense (gross)	150,000
1.3.25      Patent royalty received from Ms Russell	10,000
15.3.25     Interest received from Shaw Ltd, a UK company	40,000

70% of the debentures were held by UK companies and the rest by UK individuals.

**Requirement:**

- 1) Calculate the amount of benefits that Julie will be taxed on for 2025/26. (8)
- 2) State how and by what date these benefits must be reported to HM Revenue & Customs and the penalty position if the deadline is missed. (2)
- 3) Calculate Martin Ltd's corporation tax liability for the year ended 31 December 2024, stating the due date for payment of tax and for filing the corporation tax return. (3)
- 4) Calculate the income tax payable by Martin Ltd as a result of the interest payments and interest and patent royalty receipts in the quarter ended 31 March 2025, stating the due date for payment. (3)

Total (16)

For the purpose of this question you should assume that 2024/25 rates and allowances continue to apply in 2025/26.

11. You have recently held a discussion with Amrita Chopra, the newly appointed finance director of one of your clients, Dodgy Ltd, a close company. During the discussion, Amrita raised the following matters:

Construction Industry Scheme

Dodgy Ltd is a contractor under the Construction Industry Scheme. The monthly contractor return CIS 300, due on 19 May 2024, was not filed until 1 June 2025 due to an administrative oversight. Deductions of £8,000 in respect of payments made to subcontractors were reported on the return and these were remitted to HMRC by the due date.

Neil is one of the VAT registered subcontractors working on a contract for Dodgy Ltd. Dodgy Ltd have verified that Neil is registered under the Construction Industry Scheme and has advised that a 20% deduction rate should be used. During March 2025 Neil submitted an invoice to Dodgy Ltd for the following:

Labour £500  
Materials £200

The domestic reverse charge applies.

Benefits

Amrita has been provided with a flat close to Dodgy Ltd's offices where she lives during the week, as she works at this location full-time and often works until late in the evening. The flat was first purchased by Dodgy Ltd in 2003 for £80,000 and was worth £250,000 on 6 October 2024 when Amrita moved in. The annual value of the flat is £500. Amrita pays £200 per month to Dodgy Ltd for the use of the flat. Dodgy Ltd meets the cost of Council Tax, which is £1,000 per annum. Dodgy Ltd also pays for the finance director's parking space at the office, at a cost of £1,600 per annum.

Loan

One of the shareholder director's of Dodgy Ltd, Clive Deed, received an interest free loan from the company of £50,000 on 1 July 2024. No action has been taken in respect of this loan.

Dodgy Ltd draws up accounts to 31 March each year.

**Requirement:**

- 1) Calculate, together with a brief explanation, the penalties due in respect of the late submission of the CIS 300 return due on 19 May 2024. (4)
  - 2) Calculate the amounts which Dodgy Ltd must report and pay to HMRC and the amount it paid to Neil. (4)
  - 3) Calculate the total taxable benefits for 2024/25 in respect of the benefits provided to Amrita Chopra. (5)
  - 4) Explain the implications for both Dodgy Ltd and Clive Dunn in respect of the £50,000 loan made on 1 July 2024. (5)
- Total (18)

**Assume you are writing in June 2025**

12. You have been working with Goffin Ltd, a small unquoted company which manufactures environmentally friendly paper cups.

Goffin Ltd is considering setting up a share scheme that will allow the company to reward its employees. You have established that the company would meet the necessary conditions to offer its employees any of the tax advantaged share schemes.

The financial director is keen to understand the workings of each of the schemes and any additional administration requirements the company will have as a result of operating a scheme.

Goffin Ltd has already determined that it does not want to offer a SAYE scheme.

**Requirement:**

**Prepare a memorandum for the next directors' board meeting covering the following topics:**

- |  |      |
|--|------|
| 1) The key features of the different types of tax advantaged share schemes, including the income tax consequences for the participating employees; | (10) |
| 2) The national insurance contribution implications of Goffin Ltd rewarding its employees with shares;   | (1)  |
| 3) The administrative requirements for the company on setting up the schemes and any ongoing reporting requirements;                               | (3)  |
| 4) A recommendation of the appropriate scheme assuming the company decides it wants to award free shares to all its employees.                     | (1)  |
| Total  | (15) |

13. You are a tax adviser working for Harmony Associates. Your manager is preparing for a meeting with Michael Pressler, a potential new client. Michael is a VAT registered trader who runs 'The one stop shop' which sells a wide range of clothing (both adults' and children's clothes).

#### Business

Michael's business has expanded rapidly in recent years and, in addition to selling goods from a number of shops which he operates in the UK, he has started to enter into international transactions. In the quarter ended 31 December 2024, Michael had the following transactions:

- a) Supply of 25 pairs of men's trousers to an individual customer in South Africa.
- b) Purchase of 150 pairs of women's shoes from a trader in Canada.

#### Expansion plans

Michael is considering setting up some shops in Europe and has asked Rachael Gullivan and Damien McKew, two of his employees, to travel to Europe to undertake some research into whether his ideas for expansion are practical.

Rachael will go to Paris for three weeks in January 2026 and for a further 15 weeks from the beginning of March 2026. Rachael's daughter will travel to Paris to visit her on four separate occasions: one in January, two in March and one in May. Michael Pressler, as Rachael's employer, will reimburse the cost of all these journeys.

Damien McKew is UK domiciled and has always been UK resident for tax purposes. Michael has asked Damien to leave the UK on 1 January 2026 to travel to Spain. Michael would like Damien to work full-time in Spain for the next 18 months to oversee the expansion of the business in Spain. Damien will be paid a salary of £60,000 per annum. From the date he leaves the UK, Damien will be classed as a non UK resident for tax purposes.

#### **Requirement:**

- 1) **Explain the VAT treatment of the two transactions for the quarter ended 31 December 2024, including how any VAT due would be accounted for.** (5)
- 2) **Explain how the expenses of Rachael's daughter's travel to Paris will be treated for Income Tax purposes.** (4)
- 3) **Prepare a memorandum for your manager:**
  - a) **Briefly explaining the difference between residence and domicile. You are not required to refer to deemed domicile.**
  - b) **Outlining Damien's liability to UK taxation in relation to the salary he will receive whilst employed in Spain.** (4)
- 4) **Explain the function of an engagement letter and four terms which the Association of Taxation Technicians' guidelines recommend Harmony Associates should include in the engagement letter if they are to take Michael on as a new client.** (3)

Total (16)



14. You are a tax adviser and act for the following two clients:

Wheelfitter Ltd

Wheelfitter Ltd is a nationwide car repair business employing 150 staff. Wheelfitter Ltd has turnover of £1.5 million per year and is VAT registered. Wheelfitter Ltd has been approached by a small car repair company, Enginetune Ltd, to take over Wheelfitter Ltd's existing business. Enginetune Ltd will buy 100% of the shares in Wheelfitter Ltd for £5 million.

The terms of sale are that all parts of the car repair business, including Wheelfitter Ltd's staff, will be transferred to Enginetune Ltd as part of the sale. There will be no breaks in trading as a result of the transfer and all of Wheelfitter Ltd's current car repair garages will remain open during the transfer of ownership to Enginetune Ltd.

Enginetune Ltd is not currently registered for VAT and, during negotiations, the managing director of Enginetune Ltd stated that it intends to take over Wheelfitter Ltd's VAT registration number, in order to keep matters simple.

Enginetune Ltd is considering further expansion by acquiring existing companies (rather than the businesses) in the future.

Maxwell

Maxwell is a VAT registered trader in Great Britain buying and selling handbags, which are wholly taxable supplies. During the quarter ended 31 December 2024 he made taxable supplies on which output tax of £13,000 was charged. He also incurred the following expenses (all amounts are inclusive of VAT):

	£
Purchase of stock for resale	12,000
Client entertaining	1,032
Telephone bill	1,044

Maxwell has estimated that during the quarter, 70% of the telephone calls made were for business purposes with the remaining 30% being private.

During the quarter ended 31 March 2025, Maxwell entered into the following transactions:

- 1) Export of standard rated goods to France
- 2) Import of standard rated goods from China
- 3) Payment for accountancy advice in relation to international expansion of the business from an accountant based in Australia

**Requirement:**

- 1) Explain the VAT liability of the transfer of Wheelfitter Ltd's business to Enginetune Ltd, including any conditions that must be met. (4)
  - 2) Explain whether Enginetune Ltd will be allowed to take over Wheelfitter Ltd's existing VAT registration and the consequences of doing so. (2)
  - 3) State the conditions which must be met for two or more companies to form a VAT group. (3)
  - 4) State two advantages and two disadvantages of Enginetune Ltd being in a VAT group. (4)
  - 5) Calculate and explain Maxwell's VAT payable/repayable for the quarter ended 31 December 2024. (3)
  - 6) Explain how each of Maxwell's overseas transactions will be treated for VAT purposes. (3)
- Total (19)

15. One of your clients, Fargo Ltd, has requested your assistance with calculations related to the following matters. Fargo Ltd has 250 employees and an annual turnover of £15 million.

Lorne

Lorne was a senior employee, paid monthly, earning £150,000 per annum. Lorne was made redundant from Fargo Ltd in February 2025.

Lorne had a six month contractual notice period and was entitled to payment in lieu of notice. He worked only two months of his notice period, for which he was paid via the payroll. His statutory redundancy entitlement was £6,000.

Lorne signed a compromise agreement, in exchange for which he received a payment of £125,000. This payment was to cover his statutory redundancy pay and payment in lieu of notice, with the balance being described as 'ex gratia'.

In addition to the payment of £125,000, Fargo Ltd made a payment of £10,000 directly into Lorne's registered pension scheme. Fargo Ltd also made a payment of legal fees of £500 directly to Lorne's solicitor in connection with advice taken by Lorne on the termination. The company also provided Lorne with outplacement counselling which cost the company £1,500.

Lester

Lester's personal service company, Nygaard Ltd, has been engaged by Fargo Ltd to provide engineering services under a two year contract from 1 May 2024.

Nygaard Ltd invoiced Fargo Ltd £6,500 for work carried out in May 2024 including £500 for cost of materials. Lester incurred travelling expenses of £100 visiting various sites of Fargo Ltd. Nygaard Ltd does not have any other employees and Lester would be considered an employee of Fargo Ltd if he did not provide his services via Nygaard Ltd. Nygaard Ltd is not VAT registered.

Alison and Roger

During 2024/25, two employees of Fargo Ltd had periods of absence from work.

Alison was a student before starting work for Fargo Ltd on 1 November 2024. Alison's baby was due on 14 February 2025 and she started maternity leave on 5 February 2025. Fargo Ltd did not pay Statutory Maternity Pay.

Roger has been off sick since May 2023. Fargo Ltd did not pay Statutory Sick Pay during 2024/25.

**Requirement:**

- 1) Calculate Lorne's earnings assessable to Income Tax in connection with the termination of his employment. (5)
  - 2) Explain how each element is subject to National Insurance Contributions and how these are reported and paid to HMRC. (4)
  - 3) Explain why Fargo Ltd is not treated as a small company for the purposes of the off-payroll working legislation. (1)
  - 4) Calculate the deemed direct payment in respect of the invoice for the work carried out in May 2024 and explain how this is treated for income tax and National Insurance Contributions purposes. (3)
  - 5) Explain why Fargo Ltd was not required to make statutory payments to Alison and Roger. (2)
- Total (15)

## ANSWERS TO QUESTIONS

## 1. BUILD LTD

1) Payments to subcontractors

- Before paying a subcontractor for the first time, a contractor must verify the subcontractor with HMRC. [½]
- This is done by way of an online verification service. [½]
- The contractor will need to provide the name of the sub-contractor, the unique taxpayer reference and the national insurance/company registration number. [½]
- HMRC will inform the contractor of the rate, if any, of deduction that should be made from the payment. [½]
- If a subcontractor is not registered with HMRC, a deduction must be made at the higher rate (30%) from the payment. [½]
- Subcontractors registered with HMRC can either be paid gross (no deduction required) or under the standard rate 20% deduction. [½]

**Total 3**2) Payment statements

- Where a deduction has been taken from a payment, a payment statement must be provided to the subcontractor. [½]
- At least one payment statement must be issued each tax month. [½]
- The statement must be issued within 14 days of the end of the month to which it relates, ie by the 19<sup>th</sup> of each month. [½]
- A penalty of up to £300 may be levied if such statements are not provided, plus a further penalty of up to £60 per day for continuing failure. [½]

**Total 2**3) CIS deduction

<u>Invoice element</u>	<u>Treatment for CIS purposes</u>	<u>Amount subject to deduction</u> £
Materials £21,000	Only the actual cost of materials to the subcontractor can be excluded from the deduction. The 20% mark up, as profit, is subject to deduction (21,000 x 1/6) [1]	3,500
Labour £10,000	The whole amount is subject to deduction [½]	10,000
Scaffolding hire £2,500	The whole amount is subject to deduction, as there is no direct cost to the subcontractor [1]	2,500
Travel expenses £450	Whole amount is subject to deduction [½]	450
Total		<u>16,450</u>

**Total 3**

4) VAT

- The sub-contractors will not include VAT on their invoices [½] and will not calculate any output tax. [½]
- Build Ltd will pay output tax on the amount of the invoices at 20% to HMRC. [½]
- They will be able to recover this as input tax. [½]

**Total 2**5) Due Dates

- The return for the year ended 31 December 2022 should have been filed by 31 December 2023. [½]
- The tax due should have been paid by 1 October 2023. [½]

**Total 1**6) Penalties for Late Corporation Tax Returns

- A flat rate penalty of £100 is levied where a return is up to 3 months late.
- This increases to £200 where the return is more than 3 months late, as in this case.
- However, the penalties increase to £500 and £1,000 respectively if the late filing is a third consecutive failure.
- A tax geared penalty of 10% applies where a return is not filed within 18 months of the end of the accounting period.
- The penalty is calculated as 10% of the corporation tax unpaid at that 18 month point.
- The penalty should be paid within 30 days of the date the notice assessing the penalty is issued to avoid an interest charge.

**[1 for each point]****Max 5****Total for question 16**

**2. NEVILLE**1) Off-payroll working

A corporate client will be small for the purposes of the off-payroll working legislation if the latest accounts due to be filed before the start of the tax year relate to a financial year in which the small companies' regime applies to the client. **[1]**

A corporate entity will be in the small companies' regime if, broadly, it satisfies two of the following three tests: **[½]**

- Annual turnover ≤ £10.2 million; **[½]**
- Balance sheet total ≤ £5.1 million; **[½]**
- Average number of employees ≤ 50. **[½]**

An entity will only be classed as medium/large if the conditions are not met in two consecutive years. **[½]**

**Max 3**2) Deemed employment income

	£		£	
Income from relevant engagements			85,000	
Less: 5% allowable deduction			(4,250)	<b>[½]</b>
			80,750	
Less:				
Expenses			(2,500)	<b>[½]</b>
Professional subscriptions			(3,200)	<b>[½]</b>
Salary	32,000	<b>[½]</b>		
Employer's NICs (W)	<u>3,160</u>	<b>[1]</b>	<u>(35,160)</u>	
			39,890	
Deemed employment income				
39,890 x 100/113.8			<u>(35,053)</u>	<b>[½]</b>
Employer's NIC			<u>4,837</u>	<b>[½]</b>

Working

Class 1 Secondary NICs (32,000 – 9,100) x 13.8% **3,160**

**Total 4**3) PAYE reporting and payment in respect of the deemed salary payment

The net deemed salary payment must be reported on Wizard's Full Payment Submission (FPS) **[½]** on or before 5 April. **[½]**

Payment of Income Tax and NICs **[½]** are due by 22 April if made electronically **[½]**, 19 April otherwise. **[½]**

**Max 2**4) Economic reality test

There is no single test to determine employment status. The courts normally consider the following in respect of the economic reality test:

- Extent of integration into the business. This looks at whether someone is "part and parcel" of an organisation, rather than being merely accessory to it.

- Provision of equipment. A self-employed person is more likely to provide their own equipment whilst an employee is more likely to be provided with equipment.
- Work routines. An employee is likely to be required to work specific hours and attend a place of work on a regular basis, whereas a self-employed individual is free to work as and when they wish.

**[1 for naming each factor and 1 further mark for explaining the factor]**

**Max 6**

**Tutorial Note:**

Credit would be given for all relevant factors.

**Total for question 15**



**3. HOLLY****1) ITSA notification**

Holly must notify HMRC within six months of the end of the tax year in which she becomes chargeable. **[1]** As she will start to trade in 2024/25, she must notify HMRC by 5 October 2025. **[1]**

**Total 2****2) ITSA returns**

If Holly files a paper return, it should be filed by 31 October following the end of the tax year. **[1]** If she completes an online return it should be filed by 31 January following the end of the tax year. **[1]** However, returns can be filed three months following the date of issue of the return/notice to file if later than these deadlines. **[1]**

The tax liability for 2024/25 will be due for payment by 31 January 2026. **[1]**

**Max 3****[but must deal with all aspects of the question]****3) Records for ITSA**

A self-employed individual must retain records for at least 5 years and 10 months after the end of the tax year to which they relate, ie to the 5<sup>th</sup> anniversary of 31 January following the end of the tax year. **[1]**

**Total 1****4) VAT registration**

Holly must register for VAT if her turnover of VAT taxable goods and services supplied within the UK exceeds the registration threshold. **[½]** There are two tests, first if at the end of any month turnover for the previous 12 months (or since commencement if later) is more than the current registration threshold of £90,000, **[½]** or if she expects turnover in the next 30 days alone will exceed that figure. **[½]**

Assuming the historic test applies, Holly must notify HM Revenue & Customs of her liability to register within 30 days from the end of the month in which the limit is exceeded. **[½]** Registration will be effective from the start of the month following this 30 day period, **[½]** so in Holly's case she will be registered from 1 April 2025. **[½]**

If Holly's business does not exceed the registration threshold, then she may apply to register for VAT voluntarily. **[½]** As Holly intends to make taxable supplies, **[½]** she can voluntarily register for VAT at any time. **[½]**

**Max 3****[but must deal with all aspects of the question]**

5) VAT records

Holly must retain information which will enable her to complete a correct tax return. [ $\frac{1}{2}$ ]

Records must be kept for a minimum of six years. [ $\frac{1}{2}$ ]

She has an obligation to preserve:

- Business accounting records
- Copies of tax invoices issued
- Tax invoices received
- Documentation relating to all imports/exports
- Credit and debit notes
- VAT account.

[ $\frac{1}{2}$  each for any two]

**Max 2**

6) VAT filing and payment

VAT returns usually need to be completed at the end of every quarter. [ $\frac{1}{2}$ ] All businesses must file their returns electronically [ $\frac{1}{2}$ ] using software that is compatible with HMRC's systems under the Making Tax Digital provisions. [ $\frac{1}{2}$ ] Manually transferred data is not acceptable. [**1**] Digital links must be used to transfer data or exchange data between software programs and applications that make up the functional compatible software.

The due date for filing the return and paying the VAT is one month and seven days after the VAT return period end. [**1**]

**Max 3**

7) VAT invoices

VAT invoices must contain:

- A sequential identifying invoice number
- The date of the supply
- The date when the invoice is being issued
- The name, address and VAT registration number of the supplier
- The name and address of the customer
- A description sufficient to identify the goods or services supplied
- The quantity of goods or extent of services supplied, the rate of VAT and the amount being charged to VAT, net of VAT (ie the VAT exclusive amount)
- The total amount being charged, net of VAT
- Rate of any discount offered
- The total amount of VAT chargeable.

[ $\frac{1}{2}$  each]

**Max 3**

8) Overseas aspects

When goods are imported into GB from overseas (excluding Northern Ireland) then import VAT will be due at the time of importation. [½] This is then reclaimed as input VAT on the next VAT return. [½] Alternatively, Holly could use postponed VAT accounting whereby the import VAT is deferred at the time of import and accounted for as input and output tax on the same VAT return. [1]

When a GB VAT registered business supplies goods to an overseas customer (excluding Northern Ireland), then the supply is zero rated for VAT, [½] provided the UK trader obtains the necessary evidence that the goods have been exported. [½]

**Total 3**

**Total for question 20**

**4. TERESA****1) Input tax recoverable**

Apportionment fraction:  $35,500/55,000 = 64.5\%$  round up to 65%  
**[½ + ½ for rounding up]**

Potential recoverable amount =  $(65\% \times £1,050) + £2,950 = £3,633$  **[1]**

Attributable to exempt supplies =  $£1,650 + (£1,050 - £683) = £2,017$  **[½]**

The exempt input tax exceeds the de minimis of £625 per month on average ( $£2,017/3 = £672$ ) so the recoverable amount is £3,633. **[½]**

**Total 3****2) Additional items**

The VAT which was previously recovered on the bad debt will have to be taken into consideration, given that part payment has taken place. Teresa will have to repay the VAT she has recovered and this will reduce the amount of input tax recoverable. **[1]**

Original bad debt relief would have been £300 ( $£1,800 \times 1/6$ ). A payment of £1,000 against a total debt of £1,800 means the bad debt relief actually due is £133 ( $£800 \times 1/6$ ). VAT of £167 ( $£300 - £133$ ) must be repaid. **[1]**

The VAT payable on entertaining is 'blocked' input VAT, so cannot be recovered. **[1]**

The private use portion of the items purchased for office use will not be recoverable **[½]** so the VAT recoverable will be  $£5,400 \times 1/6 = £900 \times 80\% \times 65\% = £468$ . **[1]**

Therefore, total VAT recoverable for the quarter =	3,633
Less: Bad debt reduction	(167)
VAT recoverable on office assets	468
Total	<u>3,934</u>

**[½ for totalling]****Total 5****3) VAT bad debt relief**

A VAT registered business can reclaim VAT that was paid to HMRC and for which payment has not been received from the customer. The conditions are that:

- The trader must have supplied the goods and accounted for and paid the output VAT due to HMRC on the supply **[1]**
- The whole or part of the consideration must have been written off in the bad debt account **[1]**
- The value of the supply is not more than the normal selling price **[1]**
- The debt must not have been paid, or sold on **[1]**
- Six months must have elapsed from the later of the date of the supply being made, and the due date for payment as specified on the invoice **[1]**

The claim must be made within 4 years and 6 months from the later of the date of supply and the due date for payment on the invoice. **[1]**

**Max 5**

4) ITSA

The due date for the 2023/24 online income tax return was 31 January 2025. [½]

The balancing payment for 2023/24 and the first payment on account for 2024/25 were also due on 31 January 2025. [½]

**Total 1**

5) ITSA penalties

Interest will be charged on the balancing payment for 2023/24 and the first payment on account for 2024/25 from the due date to the date of payment, ie from 31 January 2025 to 1 July 2025. [1]

A late payment penalty will be charged in respect of the balancing payment for 2023/24 as the tax was outstanding more than 30 days after the due date. [1]

The penalty will be 5% of the outstanding tax and NICs due. [½]

A late payment penalty is never charged in respect of late payments on account. [½]

A penalty of £100 will be charged as the income tax return was late. [½]

Daily penalties of £10 per day may also have been charged as the return was outstanding for more than three months. [1]

**Max 4**

**Total for question 18**

## 5. SCOTT

1) NIC calculation

Benefit	Value of benefit	Class 1A NICs @ 13.8%	Class 1 NICs employee @ 2%	Class 1 NIC employer @ 13.8%
	£	£	£	£
Car (W1)	2,060	284 [½]		
Fuel (W2)	5,282	729 [½]		
Mobile phone	Exempt	Exempt	Exempt	
Season ticket	Exempt	Exempt	Exempt	
Gift vouchers	500		10 [½]	69 [½]
Gym membership	360	50 [½]		
Shares (W3)	5,000	N/A	N/A	N/A
Pension	Exempt	Exempt	Exempt	
Total NIC		<u>1,063</u>	<u>10</u>	<u>69</u>

WorkingsW1) Car

List price (disregard cost to employer)	15,000	[½]
Less: Contribution	<u>(1,000)</u>	[½]
	<u>14,000</u>	

## Relevant %

19% [½] [½ for no supplement as meets RDE2 standard]

19% x 14,000

Less: Private use contribution (50 x 12)	2,660	
	<u>(600)</u>	[½]
	<u>2,060</u>	

W2) Fuel

27,800 x 19% = £5,282 [½]

W3) Shares

The shares are not readily convertible assets so are not subject to Class 1 or 1A NICs. [½]

**Tutorial Note:**

Car parking, provided at, or near, the place of work is an exempt benefit.

Long service awards of up to £50 per year of service are exempt only where the employee has at least 20 years of service with the employer.

The employee Class 1 NICs is calculated at 2% as Scott's monthly salary exceeds the upper earnings limit.

**Total 9**

2) NIC admin

The employer must provide details of the Class 1A NICs on form P11D(b) [½] which must be sent to HMRC by 6 July 2025. [½] The supporting information concerning the benefits must be reported on Scott's form P11D, a copy of which must be filed online with HMRC by the same date. [½]

Class 1A NICs are payable by 22 July 2025 if paying electronically (19<sup>th</sup> otherwise). [½]

Class 1 NICs are due via the PAYE system 17 days after the end of the tax month in which the vouchers are given if paying electronically (14 days otherwise). [½] The Class 1 NICs deducted are reported to HMRC on a Full Payment Submission at or before the time of payment. [½]

**Total 3**3) Childcare vouchers

The employer must carry out a basic earnings assessment to assess the amount of tax relief that is due on the provision of the vouchers. [½] The employer must estimate Helen's relevant earnings from her employment for 2024/25 [½] which will include her salary and any benefits to which she is contractually entitled. [½]

**Max 1****Tutorial Note:**

Although employer provided voucher schemes are closed to new entrants from 4 October 2018, employees who joined before this date can still benefit from the exemption.

4) Childcare vouchers calculation

	£	
Salary	55,000	[½]
Less: Pension contributions at 5%	(2,750)	[½]
	52,250	
Add: Contractual benefits:		
Gym membership	360	[½]
Less: Personal allowance	(12,570)	[½]
Earnings assessment	40,040	

As her earnings exceed the basic rate limit of £37,700, [½] only the first £28 per week of childcare will be exempt. [½]

The excess will be reported on form P11D [½] and subjected to Class 1 NICs via the PAYE system. [½]

**Total 4****Total for question 17**

**6. BAINES & CO****1) Imports and exports**

When goods are imported into GB from overseas (excluding Northern Ireland) then import VAT will be due from Felix at the time of importation. [½] This is then reclaimed as input VAT on the next VAT return. [½] Alternatively, Felix could use postponed VAT accounting whereby the import VAT is deferred at the time of import and accounted for as input and output tax on the same VAT return. [1]

Where goods are imported from Northern Ireland, the seller will charge VAT on the invoice and Felix will be able to recover this as input VAT as normal. [1]

When a GB VAT registered business supplies goods to an overseas customer (excluding Northern Ireland), then the supply is zero rated for VAT, [½] provided the UK trader obtains the necessary evidence that the goods have been exported. [½]

Where goods are exported to Northern Ireland, Felix will charge VAT on the invoice and account for this as output VAT. [1]

**Total 5****2) Place of supply – salon**

The place of supply of services to any business customer is where the customer belongs, so in this instance the place of supply will be the USA. [1]

**Total 1****3) Place of supply – private clients**

Aoife will have to charge UK VAT to the customers in the USA as the place of supply of a business to consumer supply is where the supplier belongs. [1]

**Total 1****4) Simplified methods**

The simplified partial exemption tests are as follows:

Test one – Total input tax incurred is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies. [1]

Applying this to Mae Emmett, her monthly average input tax is £26,200 / 12 = £2,183. Therefore, test one is not passed. [1]

Test two – Total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies. [1]

Applying this to Mae Emmett, the monthly average is (£26,200 – 17,000)/12 = £767. Therefore, test two is not passed. [1]

**Total 4**



5) Standard method

Applying the standard method of partial exemption:

$$\begin{aligned}\text{Recovery percentage} &= (\text{Total taxable supplies} \times 100) / \text{Total supplies} \\ &= (62,000/87,000) \times 100 = 72\%\end{aligned}$$

**[1 if rounded correctly ½ for 71.26%]**

Residual VAT attributable to taxable supplies = 72% x 1,200 = £864 **[½]**

Residual VAT attributable to exempt supplies = 28% x 1,200 = £336 **[½]**

Total attributable to exempt supplies = (£8,000 + £336)/12 = £695 per month **[½]** – therefore the exempt input VAT is not de minimis. **[½]**

Therefore £17,864 is recoverable, i.e. £17,000 + £864. **[1]**

**Total 4**

6) Ethics: New clients

Any **three** from:

- Comply with identification requirements set out in the anti-money laundering guidance
- Consider whether the potential client will be acceptable in terms of the risks it presents to the firm
- Consider whether Baines & Co has the relevant skills and competence to service the client's requirements
- Consider whether there is a conflict of interest and, if so, whether and how it might be managed
- Consider the application of the Consumer Contracts (Information Cancellation and Additional Charges) Regulations 2013 where the client is a consumer.

**Tutorial Note:**

Chapter 4, section 4.3, para 4.3.1 of Professional Responsibilities and Ethics for Tax Practitioners.

**[1 per point]**

**Max 3**

**Total for question 18**

**7. QUALITY BUILD LTD****1) CIS Deduction**

Amounts subject to deduction:

	£	
Labour	5,000	[½]
Travel expenses	500	[½]
Use of equipment (as owned, rather than hired)	250	[½]
	<u>5,750</u>	

Deduction due: £5,750 x 30% **[1]** (as not registered) 1,725

Plant hire is not subject to deduction. [½]

Materials costs are not subject to deduction. [½]

The deduction should have been remitted to HMRC on or before 22 May 2025 if paid electronically (19<sup>th</sup> otherwise). [½]

**Total 4**

**2) CIS payment and reporting**

As Ace Ltd is paid under deduction, Quality Build Ltd will be required to provide a statement to Ace Ltd. [½] The statement must be provided by the 19<sup>th</sup> of the month following the tax month of payment, ie 19 May 2025. [½] The statement must show Quality Build's name and tax reference, details of the payments made, the cost of materials incurred by the subcontractor, and the deductions made. **[1]**

**[Credit given for any other relevant points]**

**Total 2**

**3) CIS penalties**

Automatic penalty for late return: £100 [½]

As the return is more than two months late, [½] a further £200 penalty will apply. [½]

Further penalties apply as the return is more than six months late. [½] The penalties are the greater of £300 [½] or 5% of the deductions due, [½] £400 in this case.

Total penalties = £700

**Total 3**

**4) CIS scheduled review**

As Quality Build Ltd holds gross payment status as a subcontractor, [½] HMRC will carry out an annual 'scheduled review' [½] to check whether the company is up to date with all its tax obligations. [½] As Quality Build Ltd has submitted one of its returns more than 28 days late, HMRC may withdraw gross payment status. [½]

**[Credit given for any other relevant points]**

**Total 2**

5) PSA

An exemption is available for annual events open to all employees, where the cost per head of all events does not exceed £150. [½] Both events fall within the exemption as the costs per head are £40 and £100 respectively, [½] as the cost is measured per attendee, rather than per employee. [½]

Directors' year end dinner:

$£1,500 \times 100/60 = £2,500$  grossed up [½]

Tax due on grossed up amount:  $£2,500 \times 40\% = £1,000$  [½]

Class 1B due on taxable benefit:  $£1,500 \times 13.8\% = £207$  [½]

Class 1B due on tax on grossed up amount:  $£1,000 \times 13.8\% = £138$  [½]

(Candidates may alternatively apply 13.8% to £2,500 = £345)

Total tax and Class 1B NICs: £1,345

Tax and Class 1B NICs are payable to HMRC on or before 22 October 2025 if paid electronically [½] (19<sup>th</sup> October otherwise).

**Total 4**

6) Expenses

As business travel is an allowable expense, [½] the reimbursement is exempt income and not subject to tax. [½] Specific and distinct business travel expenses are not subject to Class 1 or Class 1A NICs. [½]

**Max 1**

7) Ethics: Confidentiality

A member owes a duty of confidentiality to their client. [½]

The duty to observe confidentiality applies without time limit [½] to all information with which the member is entrusted by their clients [½] or which is brought to their knowledge during or at any time after the carrying out of their assignment, [½] or in the course of their professional practice in general. [½]

The same duty of confidentiality should be imposed on employees and subcontractors. [½]

Information acquired in the course of a member's work must not be divulged in any way outside their organisation without the specific consent of the client [½] unless there is a legal or professional right or duty to disclose. [½]

A member must comply with the legal requirements on the handling of data. [½]

**[½ for each relevant point]**

**Max 4**

**Tutorial Note:**

Chapter 2, section 2.5 of Professional Responsibilities and Ethics for Tax Practitioners.

**Total for question 20**

**8. THRONES LTD****1) Domicile**

The term domicile is not defined in UK tax law. [½] An individual's domicile can be determined by where their permanent home is [½] or where they have a settled intention to permanently reside. [½]

An individual can acquire a domicile in three ways:

- Domicile of origin: [½] A child at birth typically acquires their father's domicile (or mother's domicile, if the parents are not married). [½]
- Domicile of dependence: [½] If the parent changes their domicile before the child reaches 16, the child's will also change accordingly. [½]
- Domicile of choice: [½] Once an individual reaches 16, they can choose a new domicile. [½]

**Max 4****2) Overseas workday relief**

Tyrion will become resident in the UK during 2024/25 as he will spend more than 182 days in the UK. [1]

As he has not been resident in the UK for the three previous tax years and he is a remittance basis user, he can claim Overseas Workday Relief (OWR). [1]

Under OWR, his duties can be apportioned between UK duties and non-UK duties. [½] His UK duties will be taxed on a receipts basis [½] and his non-UK duties will be taxed on a remittance basis. [½] His earnings will be apportioned based on the number of UK and overseas workdays in the 2024/25 tax year. [½]

**Max 3****3) Deemed domicile**

Bronn will only be deemed domiciled in the UK if he has been UK tax resident for 15 of the previous 20 tax years. [1]

Bronn has only been resident for 14 of the 20 tax years prior to 2024/25 (2024/25 is his 15<sup>th</sup> year of residence) and therefore is not deemed domiciled in the UK in 2024/25. [1]

If an individual is deemed domiciled in the UK, they will pay UK tax on the same basis as taxpayers who are domiciled under general law and will not be able to claim the remittance basis. [1]

**Total 3**

4) Eddard's employment income

	£	
Employment income	70,000	【½】
Less: Allowable for deduction		
Subsistence (500 x 9)	<u>(4,500)</u>	【½】
Employment income	<u>65,500</u>	

Explanations:

- Eddard's flat: £9,000 – King's Landing is a temporary workplace 【½】 as Eddard is working there for a period of less than 24 months. 【½】 Therefore provision of accommodation is exempt income 【½】 as it is the payment of an allowable expense. 【½】
- Subsistence: £4,500 – allowable as a deduction 【½】 as Eddard is working at a temporary workplace for a period of less than 24 months. 【½】
- Wife and daughter's flights: £800 – as Eddard is working overseas for a continuous period of 60 days or more 【½】, the provision of up to two return flights 【½】 for spouse and children under 18 at the start of the trip 【½】 is exempt income. 【½】

**Max 5****Total for question 15**

**9. WOLF LTD AND VINO LTD****1(a) Wolf Ltd: Enterprise Management Incentives Scheme**

- There is no requirement to offer the scheme to all employees; it can be offered to selected employees only. [1]
- Discounts can be offered on the agreed option price, [½] however this will lead to a tax charge on the exercise of the option. [½]
- Providing that the option is granted at market value [½] and the exercise takes place within 10 years of grant [½] there will be no tax due on the exercise of the options.
- The company should register the scheme with HMRC [½] and notify HMRC of the details of the option agreement by 6 July following the end of the tax year. [½]

**Total 4**

**[Credit will be given for any other valid points relating to the directors' specific questions.]**

**1(b) Wolf Ltd: Save As You Earn option scheme**

- The scheme must be offered to all employees [½] although employees with less than five years' service can be excluded. [½]
- Discounts can be offered on the agreed option price [½] of up to 20% of the market value of the shares at the date the option is granted. [½]
- There is no tax on the exercise of the option. [1]
- The company should register the scheme with HMRC [½] and certify that the scheme satisfies the conditions. [½]

**[Credit will be given for any other valid points relating to the directors' specific questions.]**

**Total 4****Total 8****2(a) Vino Ltd: Reimbursement of expenses**

The reimbursement of business expenses is exempt income and not subject to tax. [½]  
Similarly, it is not subject to national insurance. [½]

**Total 1****2(b) Vino Ltd: Provision of benefits**

The provision of the hamper will need to be reported on form P11D [½] as it is a taxable benefit, meaning income tax will be due on the value of the benefit. [½] Vino Ltd will be required to pay Class 1A NICs at the rate of 13.8%. [½]

The provision of the chocolates is a trivial benefit (as the cost does not exceed £50) and is not a reward for work or performance. [½] It is therefore an exempt benefit. No tax or NICs are due. [½]

The provision of workplace charging facilities for electric cars is also an exempt benefit. [½]

Vino Ltd could enter into a PAYE Settlement Agreement (PSA) to pay the tax due in respect of the provision of the hamper. [½] A PSA is a formal agreement with HMRC [½] under which an employer can settle the income tax due on the provision of certain benefits on behalf of its employees [½] on a grossed up basis. [½] Under a PSA, Vino Ltd would be required to pay Class 1B NICs at the rate of 13.8% on the gross benefit. [½]

**Max 4**

**[Credit will be given for any other valid points.  
Answer must address both the tax and NIC consequences  
to be granted full marks.]**

2(c) Miranda's termination payment

Miranda receives a contractual payment in lieu of notice of £12,000 ( $72,000/12 \times 2$ ). [½] This is subject to income tax [½] and Class 1 NICs. [½] payable by Miranda and Vino Ltd. [½]

The compensation for loss of office in excess of the £30,000 exemption (ie £42,000) is subject to income tax. [½] It is also subject to Class 1A NICs [½] payable by Vino Ltd. [½]

The payment to the registered pension scheme is exempt from both income tax and NICs. [1]

**Tutorial Note:**

There is no taxable post employment notice pay (PENP), even though the employment was terminated before the end of the notice period. This is because the contractual PILON is fully taxable as employment income, and is the same amount as the PENP (ie  $6,000/1 \times 2$ ), so the PENP is reduced to nil.

**Max 4**

2(d) Vino Ltd: Termination payment reporting and payment requirements

The amounts subject to tax and NICs (both Class 1 and Class 1A NICs) must be reported to HMRC on a Full Payment Submission [½] at or before the time of payment. [½]

Both the Class 1 and Class 1A NICs must be paid via the PAYE system [½], ie 17 days after the end of the tax month where payment is made electronically (14 days otherwise). [½]

**Total 2**

**Total 11**

**Total for question 19**

**10. MARTIN LTD**1) Value of benefits to Julie

	Taxable benefit £	
Relocation: First £8,000 tax free, balance £2,000 taxable	2,000	[1]
Property:		
Annual value	750	[½]
Additional value: MV as property owned more than six years (425,000 – 75,000) x 2.25%	<u>7,875</u>	[1]
	8,625	
x 10/12 months	7,188	[½]
Bus pass	750	[½]
Nursery place (s.318 ITEPA 2003) – exempt	Nil	[½]
Hybrid car		
5% x £24,000 list price x 10/12 months	1,000	[1]
Loan – Average basis:		
£14,000 when taken out, £12,000 end of year average = (14,000 + 12,000)/2 x 2.25% x 10/12 months	<u>244</u>	[1½]
Loan – Strict basis:		
1 June – 30 Nov = £14,000 x 2.25% x 6/12	158	[½]
1 Dec – 5 April = £12,000 x 2.25% x 4/12	<u>90</u>	[½]
Total benefit	<u>248</u>	
Loan – take lower value	<u>244</u>	[½]
Total benefits	<u>11,182</u>	

**Tutorial Note:**

Although the loan benefit is reported on the P11D using the average method, the question asked for the amount of benefits that Julie would be taxed on therefore a comparison of the methods is required. The strict method gives a greater benefit therefore Julie would not elect for it and, as the difference is small, it is unlikely HMRC would choose the strict method.

**Total 8**2) Reporting benefits

Benefits must be reported on form P11D by 6 July [½] following the end of the tax year.  
[½]

If form P11D is late:

- HMRC can charge a penalty of up to £300 per late form [½]
- and a further penalty of up to £60 per day for each day failure continues [½]

**Total 2**



3) Corporation tax liability

	£
Trade profit	600,000
UK property business income	20,000
Non-trading profit (loan relationship)	<u>10,000</u>
TTP [ $\frac{1}{2}$ ]	<u>630,000</u>

TTP exceeds upper limit of £250,000 [ $\frac{1}{2}$ ] therefore Martin Ltd will pay tax at the main rate.

	£
£630,000 @ 25% [ <b>1</b> ]	<u>157,500</u>

Due for payment 1 October 2025. [ $\frac{1}{2}$ ]

Return due 31 December 2025. [ $\frac{1}{2}$ ]

**Total 3**

4) Income tax

Q/e 31.3.25	Tax withheld £	Tax suffered £	Net £	Tax due £	Due date	
1.2.25 (W1)	9,000					
1.3.25 (W2)		2,500				
15.3.25 (W3)		Nil				
			6,500	6,500	14.4.25	<b>[1]</b>

Workings

W1)

Interest paid to individuals paid net of 20% tax

$$150,000 \times 30\% = 45,000 \times 20\% = 9,000 \quad \text{[1]}$$

W2)

Patent royalty from individual received net of basic rate tax

$$10,000 \times 20/80 = 2,500 \quad \text{[1]}$$

W3)

Interest received from UK companies does not suffer tax at source. [ $\frac{1}{2}$ ]

**Total 3**

**Total for question 16**

**11. DODGY LTD**1) Late CIS 300

£100 automatic penalty for late return. [½]

A further £200 automatic penalty as return more than two months late. [½]

After six months [½] a further penalty is levied of the greater of £300 or 5% of the deductions due, [½] ie £400 (5% x £8,000). [½]

After 12 months [½] a further penalty is charged based on the greater of £300 or 5% of the deductions due, [½] ie £400. (5% x £8,000) [½]

Total penalties = £1,100.

**Total 4**

2) Subcontractor's invoice

The figures, which Dodgy Ltd needs to report to HMRC for CIS purposes are:

- Gross amount £700 [½]
- Qualifying materials £200 [½]
- CIS tax to deduct £100 (£500 x 20%) [½]

The contractor would therefore pay £100 to HMRC [½] and the subcontractor £600 (£700 gross amount less £100 paid to HMRC). [1]

In addition, Dodgy Ltd will need to account for output VAT of £700 @ 20% = £140 under the domestic reverse charge, which it will be able to reclaim as input VAT as normal. [1]

**Tutorial Note:**

Where the domestic reverse charge applies, the subcontractor does not include VAT on their invoice.

**Total 4**

3) Benefits to Amrita Chopra

Benefits:	£	£	
Parking space near office – exempt		–	[½]
Council tax (1,000 x 6/12)		500	[½]
Annual value (500 x 6/12)	250		[1]
Additional yearly rent: (250,000 [1] – 75,000 [½]) x 2.25% [½] x 6/12 [½]	1,969		
Less: Contributions (200 x 6)	(1,200)		[½]
Total accommodation benefit		<u>1,019</u>	
Total taxable benefit		<u>1,519</u>	

**Tutorial Note:**

The cost of the property is taken to be £250,000 as the property has been owned more than six years prior to the employee moving in.

**Total 5**

4) Loan to Clive Dunn

Where a loan is made to a participator (shareholder) in a close company, [½] the company must pay tax at 33.75% [½] of:

- the lower of the amount of the loan outstanding at the end of the accounting period; [½] or
- the normal due date. [½]

Tax of £50,000 at 33.75% = £16,875 [½] is therefore due for payment on 1 January 2026. [½]

The tax will be repaid by reducing Dodgy Ltd's corporation tax liability for the period in which the loan is repaid or written off. [½]

The loan will be taxed on Clive as an employment benefit: [½]  
ie £50,000 x 2.25% x 9/12 = £844 in 2024/25. [½]

This should be reported on form P11D [½] and will be subject to Class 1A National Insurance Contributions payable by the company. [½]

**Max 5**

**Total for question 18**

**12. GOFFIN LTD**

## Memorandum

From: Tax Manager  
To: The Board of Directors  
Date: XX/XX/XX  
Subject: Employee Share Schemes

Introduction

There are potentially three tax advantaged schemes that Goffin Ltd could operate (as they do not want to implement a SAYE scheme) and the key features of each scheme and the income tax implications for the employees are set out below.

Company Share Option Plan (CSOP)

Under a CSOP, Goffin Ltd could grant an employee share options over up to £60,000 worth of shares, valued at the date of grant. [½]

The share option gives the employee the right to buy shares in the company for a fixed price within a specified period. [½] The price must not be lower than the share's market value on the date that the option is granted. [½]

The specified period is between three and ten years after the date of grant. [½]

If the option is exercised within this period, there are no income tax implications when the employee exercises the option and acquires the shares. [½]

Enterprise Management Incentives (EMI)

With EMIs, Goffin Ltd could grant options over shares worth up to £250,000 per selected employee [½] and up to £3 million in total. [½]

Employees must work a minimum 25 hours a week. [½]

Employees must exercise their options within ten years of the date of grant at the fixed price in order to obtain favourable tax treatment. [½]

If the price of the shares under the option is not less than the market value of the shares at the date of grant, there will not be a charge to income tax when the employee exercises the option and acquires the shares. [½]

If the price of the shares under the option is less than the share's market value at the date of grant, a charge to income tax will arise on the exercise of the option. [½]

The amount charged will be the lower of the market value of the shares at the date of grant or at the date of exercise, less the amount paid by the employee. [1]

Share Incentive Plans (SIP)

The company would establish a UK resident trust and transfer cash into that trust. The trustees would use the money to acquire shares in the company. On acquiring the shares, the trust would then award shares to the employees. [½]

There are four ways in which shares can be acquired:

- 'Free' shares worth up to £3,600 can be awarded to an employee each tax year with no income tax consequences at the date of award [½]
- Employees can use up to £1,800 of their gross salary to purchase further 'partnership' shares. The salary used is not subject to income tax. [1]
- The employee can be awarded up to two 'matching' shares for every share the employee buys, with no income tax consequences at the date of award. [½]
- Where the employees own shares in the plan they can reinvest any resulting dividends to acquire new shares. The dividend will not be subject to tax. [½]

If the shares (apart from dividend shares) are retained in the trust for five years then there are no income tax consequences when the shares are removed from the trust. [½]

If the shares are removed between three and five years from acquisition, the lower of the market value at the date of award or removal will be charged to income tax. [1]

If the shares are removed within three years, the market value at the date of removal will be charged to income tax. [½]

If dividend shares are left in the trust for at least three years, there is no income tax when they are removed. [½]

If dividend shares are removed within three years, the dividends originally used to buy the shares are charged to income tax in the tax year in which the shares are removed. [½]

**Max 10**

#### National Insurance Contributions

As the shares in Goffin Ltd are not readily convertible assets (the company is not listed on a recognised stock exchange) there will be no NICs implications when options are exercised or (in the case of a SIP) shares are awarded or removed from the trust. [1]

**Total 1**

#### Administration

In order for a CSOP or SIP to obtain tax advantages, the schemes must be registered with HMRC. [½]

This is done using the Employment Related Securities online service. [½]

In addition, the schemes must be self-certified to state that they meet all the relevant conditions to be tax advantaged. [½]

EMI schemes must also be registered with HMRC but do not need to self-certify. [½]

New schemes must be registered and, where relevant, self-certified by 6 July following the tax year in which the first award of shares was made, [½] although an EMI scheme must be registered before an option grant can be notified to HMRC. [½]

The employer must notify HMRC that the grant has taken place [½] by 6 July following the end of the tax year. [½]

Goffin Ltd will be required to submit an annual return to HMRC [ $\frac{1}{2}$ ] by 6 July following the end of the year in respect of all share schemes. [ $\frac{1}{2}$ ]

**Max 3**

Recommendation

A SIP is the best scheme to meet the requirement to give a small number of shares free to all employees, as all the other alternatives require the employees to purchase the shares. [**1**]

**Total 1**

**Total for question 15**

**Tutorial Note:**

Credit will be given for relevant comments not included in the answer plan. However, no credit will be given for discussing the conditions which need to be met by the company as the question stated that it had already been determined that Goffin Ltd met the necessary conditions.

**13. HARMONY ASSOCIATES**1) VAT on overseas goods

- a) Exports of goods are zero rated **[1]** provided Michael retains evidence that the goods have been shipped out of the UK. **[½]**
- b) This is an import and Michael will be liable to import VAT in the UK **[1]** at the relevant rate, which in this case would be 20%. **[½]**

Import VAT can be paid straightaway or deferred under the duty deferment scheme. **[1]** Alternatively, Michael could use Postponed VAT Accounting **[½]** to account for the VAT as output VAT on his VAT return. **[½]**

The VAT paid is treated like any other type of input VAT. **[½]**

**Max 5**2) Overseas expenses

The reimbursement of the cost of the journey in January is not exempt income because Rachael was not away on business for 60 continuous days. **[1]**

The reimbursement of the cost of the two journeys in March and one in May will be exempt income **[½]** because, for this trip, she will be away on business for more than 60 continuous days. **[1]**

The exemption is available for a maximum of two return trips in a tax year. **[½]** The two trips in March will take place in a different tax year from the journey in May, therefore the reimbursement of the cost of all three trips will be exempt income. **[1]**

**Tutorial Note:**

It is assumed that Rachael's daughter is under 18.

**Total 4**3) Memo re Overseas

## Memorandum

To: Manager  
 From: Tax Adviser  
 Date:  
 Re: Overseas issues

The term 'domicile' refers to the country where a person has their permanent home or with which they have a substantial connection. **[1]**

Residence is generally determined by the number of days which an individual spends in a particular country in a tax year. **[1]** **[Alternative: Residence in the UK is determined using the Statutory Residence Test].**

As Damien will be non-UK resident whilst he is abroad, then the salary he earns overseas will not be liable to UK income tax. **[1]** If some of his duties are performed in the UK, earnings for those duties will remain taxable in the UK. **[1]**

Earnings must be apportioned to determine how much is attributable to UK duties. **[½]**  
 The tax treatment of Damien's earnings is not affected by his domicile status. **[½]**

**Max 4**

4) Engagement letter

The engagement letter can be used to manage client expectations and to provide protection to the practitioner in cases where there may be disputes. [1]

An engagement letter should include:

- Who Harmony Associates are acting for.
- The period of the engagement and when any advisory services will commence.
- The scope of the services.
- Responsibilities in respect of Automatic Exchange of Information (AEIO)
- The fees.
- Limitation of liability.
- Agreement of the letter.

[½ each - Max 2]

**Total 3**

**Tutorial Note:**

Professional Responsibilities and Ethics for Tax Practitioners Chapter 4, section 4.5 and section 4.11.

**Total for question 16**



**14. WHEELFITTER LTD AND MAXWELL****1) VAT on transfer of business**

The sale of the business by Wheelfitter Ltd will qualify as a transfer of a going concern, which is outside the scope of VAT **[1]** because all of the following conditions are met:

- The whole of the business of Wheelfitter Ltd is being transferred. **[½]**
- Wheelfitter Ltd's business will be a going concern at the date of transfer. **[½]**
- The assets are to be used by the transferee in the same kind of business as that carried on by Wheelfitter Ltd. **[½]**
- Wheelfitter Ltd is registered for VAT and the transferee will immediately become VAT registered after the transfer. **[1]**
- There will be no significant break in trading. **[½]**

**[Credit will be given for any other valid point not on the mark scheme.]**

**Max 4**

**2) Taking over Wheelfitter Ltd's VAT registration**

Enginetune Ltd can apply to take over Wheelfitter Ltd's VAT registration number and have it transferred along with the business. **[½]** Wheelfitter Ltd would become non-registered after the transfer. **[½]**.

The consequences are that Enginetune Ltd will take over all of Wheelfitter Ltd's outstanding VAT liabilities **[½]** including any historic liabilities due to errors or omissions by Wheelfitter Ltd. **[½]**

**Total 2**

**3) VAT group conditions**

Two or more companies are eligible to form a VAT group if:

- Each of them is established, or has a fixed establishment, in the UK **[1]**
- They satisfy the control tests, (control means holding >50% of the voting rights or having the right to appoint >50% of the board of directors), **[½]** ie:
  - One of them controls the others **[½]**
  - One person (whether a body corporate or an individual) controls all of them, **[½]** or
  - Two or more individuals carrying on a business in a partnership control all of them. **[½]**

**Total 3**

4) VAT group advantages and disadvantagesAdvantages:

- Simpler administration, as only have one VAT return to complete for all group companies.
- Supplies between VAT group members are disregarded for VAT purposes (outside the scope of VAT).
- Possible to include an exempt company in the group and recover some input tax that would have otherwise been irrecoverable.
- Inclusion of a fully taxable company in a group may increase VAT recovery for partially exempt group members.

**[One mark each - Max 2]**Disadvantages:

- As it can be difficult to collect all information it could lead to late VAT returns/payments.
- Any late payment penalty would be higher as it is based on a percentage of the whole group's VAT shown on the return.
- Consolidating many companies' VAT records onto one VAT return can create additional administrative burden.
- The inclusion of a partially exempt company in a group may decrease the input tax recovery of the other group members, as the partial exemption de minimis limits apply to the group as a whole.
- If exempt companies are included, the group becomes partially exempt and recovery of input tax is restricted.
- The companies share joint and several liability for VAT debts of the group as a whole.
- The inclusion of a company making zero-rated supplies will result in the loss of monthly repayments to that company.

**[One mark each - Max 2]****Max 4**5) Maxwell's VAT

Input VAT

Purchases = £12,000 x 1/6 = £2,000 [ $\frac{1}{2}$ ]VAT on client entertaining is not recoverable as the input VAT is blocked. [ $\frac{1}{2}$ ]The business proportion of the VAT on the telephone bill will be recoverable. [ $\frac{1}{2}$ ]Total VAT = £1,044 x 1/6 = £174. [ $\frac{1}{2}$ ] 70% of this, so £122 will be recoverable. [ $\frac{1}{2}$ ]VAT payable = £13,000 – (£2,000 + £122) so £10,878 [ $\frac{1}{2}$ ]**Total 3**

6) VAT on Maxwell's overseas transactions

The export will be zero rated for VAT. [½]

The import will be liable to VAT on entry and this will be payable to HMRC. The amount can be recovered by Maxwell as input VAT. [1]

If Maxwell is a regular importer, it is likely that the import VAT can be deferred by setting up an account with HMRC or postponed VAT accounting can be used. [½]

Purchase of services by a UK business are liable to VAT in the country where the customer is based and are charged to VAT under the reverse charge system. [½]

Therefore Maxwell must account for output tax on the supply as it is a UK supply. [½]

The amount can also be deducted as input tax. [½]

**Max 3**

**Total for question 19**

**15. FARGO LTD**1) Lorne's termination payment

	£	£	
Payment in lieu of notice (150,000/12 x 4)		50,000	[1]
Statutory redundancy	6,000		[½]
Ex gratia payment (125,000 – 50,000 – 6,000)	<u>69,000</u>		[1]
	75,000		
Less: Exemption	<u>(30,000)</u>		[1]
		45,000	
Legal fees – exempt		Nil	[½]
Pension contribution – exempt		Nil	[½]
Outplacement counselling – exempt		<u>Nil</u>	[½]
		<u>95,000</u>	

**Tutorial Note:**

There is no need to calculate the post employment notice pay (PENP) in this case. The contractual payment in lieu of notice (PILON) is fully taxable as employment income, so the PENP is reduced to nil, as shown below:

Monthly pay is £150,000/12 = £12,500

PENP notice period is 4 months (6 month notice period less the 2 months worked).

The contractual PILON is £50,000.

Therefore PENP is (12,500 x 4) – 50,000 = £Nil.

**Total 5**2) NIC on termination

The payment in lieu of notice will be subject to primary and secondary Class 1 National Insurance Contributions (NICs). [½]

The payment of £45,000 in excess of the £30,000 exemption [½] will be subject to Class 1A NICs [½] payable by the company. [½]

The exempt payments are not subject to NICs. [½]

Both the Class 1 and Class 1A NICs [½] are reported on a full payment submission when the payment is made [½] and are paid via the PAYE system [½] by 22<sup>nd</sup> (where paid electronically, otherwise 19<sup>th</sup>) of the tax month following the tax month in which the payment is made. [½]

**Max 4**3) Fargo Ltd and the off-payroll working legislation

Fargo Ltd is not small for the purpose of the off-payroll working legislation as the number of employees is more than 50 [½] and annual turnover is more than £10.2 million. [½]

**Total 1**

4) Deemed direct payment

	£	
Invoice	6,500	
Less: Cost of materials	(500)	$[\frac{1}{2}] + [\frac{1}{2}]^*$
Deemed direct payment	<u>6,000</u>	

[\* $\frac{1}{2}$  for not deducting travel expenses]]

Fargo Ltd will calculate PAYE  $[\frac{1}{2}]$  and employee and employer National Insurance Contributions (NICs)  $[\frac{1}{2}]$  in respect of the deemed direct payment and will pay these amounts to HMRC  $[\frac{1}{2}]$  via the PAYE system.  $[\frac{1}{2}]$

Lester will report the deemed direct payment as employment income on his income tax return  $[\frac{1}{2}]$  and will receive credit for the PAYE deducted by Fargo Ltd.  $[\frac{1}{2}]$

**Max 3**5) Statutory payments

Alison does not qualify for Statutory Maternity Pay as she had not been in continuous employment for at least 26 weeks  $[\frac{1}{2}]$  into the 15th week before the week the baby is due  $[\frac{1}{2}]$ , as she has only been employed since 1 November 2024.

Roger will have already received the maximum Statutory Sick Pay  $[\frac{1}{2}]$ , having been off sick for more than 28 weeks by 2024/25  $[\frac{1}{2}]$ .

**Total 2****Total for question 15**



**ETHICS QUESTIONS**

1. A member must be courteous and considerate to all with whom they come into contact in a professional capacity.

**Courtesy falls within which of the five 'Fundamental Principles' relating to members?**

2. The 'Standards for Tax Planning' are critical to any planning undertaken by members.

**What are the five Standards and provide a brief explanation of them.**

3. You have taken on a new client and wish to agree a contingent fee as the basis of payment for the work required.

**State three of the guidelines in relation to using contingent fees.**

4. A director of a company to which you provide tax advice has asked if you would like to invest in the company.

**Outline the guidance given to members on financial involvement with a client.**

5. **When should engagement letters for tax clients be reviewed?**

6. You receive a call from the bank manager of a client. He requests a copy of the client's latest income tax return in order to support an application for a loan.

**According to the Professional Rules and Practice Guidelines, which of the five 'Fundamental Principles' is threatened in this situation?**

7. The Professional Rules and Practice Guidelines list four examples of ways in which a member can charge for services.

**List the four methods.**

8. **Where a member of the ATT is to pay a commission to a third party for introducing a client, what disclosure must the member make to the client?**

9. **State four matters that you would expect to be dealt with in the covering letter accompanying a typical contract for the provision of tax services.**

10. **What are the three choices available to a member who is asked to act for both parties to a transaction?**

11. You are a tax technician working on a personal tax return for a client. Looking back to last year's return you think you have discovered an error. You are unsure of how to deal with this.

**What steps should you take, according to the flowchart on 'Dealing with Errors'?**

12. The profits of a trade, profession or vocation must be computed in accordance with Generally Accepted Accounting Principles (GAAP) subject to any adjustment required or authorised by law in computing profits for those purposes. This permits a trade, profession, vocation or property business to disregard non-material adjustments in computing its accounting profits.

**How does the accounting concept of materiality apply when making adjustments required to accounting figures so as to arrive at taxable profits?**

13. A member dealing with third parties on a client's behalf must be careful not to inadvertently assume a duty of care towards the third party.

**State four ways in which the member may manage these risks.**

14. A member may sign a tax return in their capacity as a liquidator.

**Name three other ways in which they can sign a return.**

15. The Professional Rules and Practice Guidelines state that a member should request the prospective client's permission to communicate with the client's existing adviser before accepting a new appointment.

**Explain why a member should communicate with an existing adviser.**

16. **Describe briefly four principles set out in the Professional Rules and Practice Guidelines that govern a member accepting a new client.**

17. **According to the Association of Taxation Technician's Professional Rules and Practice Guidelines, what procedures should be put in place to handle complaints from clients?**

18. P Ltd is engaging Dov, a member of ATT, to assist with tax compliance work. The company is offering to pay a monthly fee in return for which its finance department is likely to want between two and five days of work from Dov per month.

**Identify the major areas of concern when accepting a client on a retainer arrangement.**

19. You discover that due to an error by HMRC you have received an excessive repayment of tax, on behalf of a client.

**Briefly state what action you should take.**

20. **When a member delegates work to a junior, or subcontracts it, who takes responsibility for this work, according to the Professional Rules and Practice Guidelines?**



**ETHICS ANSWERS**

The references in brackets at the end of the answers are to the 6<sup>th</sup> edition of the text book "Professional Responsibilities & Ethics for Tax Practitioners".

1. Professional behaviour.

[Chapter 19 section 19.6 para 2.22]

2. The five standards are:

- Client Specific – it must be specific to the particular client's facts and circumstances;
- Lawful – Members must act lawfully and with integrity at all times and expect the same from their clients;
- Disclosure and transparency – All relevant facts must be disclosed to HMRC;
- Tax planning arrangements – Members must not promote tax planning that is set out to achieve results contrary to the intention of Parliament;
- Professional judgement and appropriate documentation – members must exercise professional judgement on a number of matters and keep timely notes.

[Chapter 20 section 20.2 point 1]

3. Any three from Chapter 8, section 8.2, for example:

- Contingent fees can carry increased risks, such as a third party questioning the independence and objectivity of the member. Accordingly, where a contingent fee basis is adopted, a member should take care not only to ensure that their conduct meets, but is seen to meet, the required principles of integrity and objectivity.
- A member should be aware that there may be legal or regulatory restrictions to having a contingent fee.
- It is advisable that where contingent fees are used the engagement letter should set out the scope of the work they cover and stipulate the action to be taken should subsequent events cancel all or part of the benefits to the client of the contingent fee arrangement. It should set out clearly and precisely whether part or the entire fee is to be repaid and whether interest is payable.

4. Having a financial involvement with a client may impair or be perceived as impairing a member's ability to act objectively. Members should exercise care before entering into any kind of financial arrangement with a client. This includes, for example, lending money or investing in the business of a client.

[Chapter 6 section 6.5 para 6.5.1]

5. Engagement letters should be reviewed:

- annually; and
- when the scope of services changes significantly.

[Chapter 4 section 4.10 points 1 and 3]

6. Confidentiality

[Chapter 19 section 19.5 para 2.16]

7. Time and expenses

Fixed fees

Contingent (including success) fees

Insurance

[Chapter 8 section 8.1 para 8.1.2]

8. If an ATT member is to pay a commission, they must disclose to the client:

- the amount and nature of the fee, commission or other reward; and
- the identity of the third party recipient.

**[Other valid points will gain credit]**

[Chapter 4 section 4.2 para 4.2.1]

9. Any four from Chapter 4 section 4.11, for example:

- (i) Who we are acting for;
- (ii) Period of engagement;
- (iii) Scope of services;
- (iv) AEOL, including FATCA

10. The three choices are:

- To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate;
- To act for one client only – normally the one who first sought advice;
- To act for neither party – if the conflict cannot be managed.

[Chapter 6 section 6.4 para 6.4.2]

11. You should:

- 1) Establish the facts – is there an error?
- 2) If there is an error – is it trivial?
- 3) If it is not trivial – is specific authorisation required from the client to disclose the error to HMRC?
- 4) If specific authorisation is required and the client is unwilling to give authorisation, and this is confirmed in writing, you must write to the client explaining the consequences of non-disclosure
- 5) If client still refuses to authorise disclosure, you are required to cease to act, notify HMRC, and your MLRO/NCA.

**[Other valid points will get credit.]**

[Chapter 23 section 23.2 - flowchart]

12. The application of GAAP does not extend beyond the accounting profits. Thus, the accounting concept of materiality cannot be applied when completing tax filings, for example, when computing adjustments required to accounting figures so as to arrive at taxable profits.

[Chapter 21 section 21.6 points 16-17]

13. Any four from Chapter 7 section 7.2 para 7.2.5, for example:

- Including a clear notice or caveat in the information stating that the advice has been prepared for the client and that no liability is accepted to any third parties who choose to make use of the information.
- Requiring that the client seek consent before information with which the name of member is associated is released by the client to third parties.
- Requiring the third party and/or its advisers to undertake in writing that a member be excluded from liability or held harmless as a consequence of making the information available to them.
- Communicating to the third party the terms upon which the information is released including limitations on scope, stating that the advice was prepared only with the client's interests mind, may not apply in all circumstances, and confirmation that no responsibility is accepted.

14. Any three from:

- receiver
- administrator
- under personal appointment as trustee
- under personal appointment as executor
- under personal appointment as attorney
- under personal appointment as director

[Chapter 21 section 21.11 point 33]

15.

- a) The member is aware of any professional reason why they should not accept the appointment.
- b) The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

[Chapter 4 section 4.4 paras 4.4.1-4.4.2]

16. Any four from Chapter 4 section 4.3 para 4.3.1, for example:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance.
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability to manage those risks.
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement.
- Consider whether there is any conflict of interest in accepting the client and if so whether and how it might be managed.

17. The ATT's rules state that the procedures should ensure that:

- Each new client is informed in writing of the name and status of the person to be contacted in the event of the client wishing to complain about the services provided and of the ability to complain to the Taxation Disciplinary Board (TDB). This information should be included in the engagement letter.
- Each complaint is acknowledged promptly in writing.
- Each complaint is investigated thoroughly and without delay by a person of sufficient experience, seniority and competence who preferably was not directly involved in the act or omission giving rise to the complaint and the client is told about investigation.
- If the investigation finds that the complaint is justified, wholly or in part, any appropriate action is taken.
- Consideration is given as to whether to inform the firm's professional indemnity insurer

[Chapter 9 section 9.1 para 9.1.1]

18. One area of concern is what is covered by the arrangement. Therefore, the member should normally set out the retainer arrangement in writing so that the member and the client clearly understand the extent and limitations of the agreement and the point when further charges may be levied.

The other area for concern is that a member should watch out for conflicts of interest, given that under a retainer, the client can call on that member's services at any time, which may mean that the member may not be able to fulfil their obligations to other clients.

[Chapter 8 section 8.4 paras 8.4.2-8.4.3]

19. You should return it to HMRC as soon as practicable.

You do not need your client's authority to return an excessive repayment but should notify your client that you have done so.

[Chapter 23 section 23.5 point 21]

20. If a member delegates work, the member remains primarily responsible for the work so should exercise sufficient supervision to confirm that the work performed is satisfactory and that it is carried out by persons who have been suitably trained to carry out the work involved.

[Chapter 5 section 5.4 para 5.4.1]