

Tolley[®] Exam Training

ATT PAPER 3

BUSINESS COMPLIANCE

PRE REVISION QUESTION BANK

FA 2020

May and November 2021 Sittings

PQ963

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INTRODUCTION

This Pre Revision Question Bank for ATT Paper 3 contains 4 SFQ tests and 10 exam standard long questions (all with answers updated to Finance Act 2020). This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

The Paper 3 syllabus has been expanded for the May 2021 sitting onwards (full details are on the ATT website) and the past paper questions in this question bank have been adapted as required.

Marking guides have been included in the answers where these were provided by the ATT but some answers date from the sittings prior to when the ATT started publishing their marking guides and so these answers do not include marking guides.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written questions with no question choice. The paper is split into 2 parts:

Part I consists of “short form” questions (“SFQs”) worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. **In Part II** the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection.

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**.

Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to type.

We recommend you **allocate 1.9 minutes per mark** which allows 10 minutes reading time at the start of the exam and 10 minutes for a final review at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it. 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 our 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.

LAW AND ETHICS

The ATT Paper 3 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is “Principles”, i.e. you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and 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 will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (5th edition) that are included in the Paper 3 syllabus are:

- Chapter 7 Criminal Law and Tort
- Chapter 12 Employment and Other Working Relationships
- Chapter 18 Company Law: The Basics
- Chapter 19 Company Law: Share and Loan Capital

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (5th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)

- Chapter 4 New clients and engagement letters
- 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

PCRT (2019)

- 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 D: Request for data by HMRC
- Chapter 25 Help sheet E: Members' personal tax affairs

CONTENTS**SHORT FORM QUESTIONS**

Test 1
Test 2
Test 3
Test 4

LONG QUESTIONS

1	Vino Ltd	Expenses, benefits, PSA & termination
2	Peter Pevensie	Employment income/overseas secondment
3	Start-Up Ltd	Shares – EMI & SIPs
4	Geezer Ltd	CIS gross payment, penalties, money laundering
5	Build Ltd	CIS/CTSA
6	Neville	IR35 deemed payments/employment status
7	Mike and Molly	Recovery of input VAT/place of supply rules
8	Holly	ITSA/VAT reg/records/invoices
9	Diana Chalmers	Partnership SA/types of supply/FRS
10	Scott	IT & NIC Benefits/law

ATT EXAMINATIONS

2021

TAX TABLES

INCOME TAX

	2020/21
Rates (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	7.5
Dividend upper rate	32.5
Dividend additional rate and trust rate for dividends	38.1
 Thresholds	 £
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,500
Higher rate band	37,501 – 150,000
Dividend Allowance	2,000
Personal Savings Allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000
 Scottish Tax Rates and Thresholds (Note 2)	
£	%
1 – 2,085	19
2,086 – 12,658	20
12,659 – 30,930	21
30,931 – 150,000	41
150,000 +	46
 Reliefs	 £
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	9,075
– Maximum income before abatement of relief - £1 for £2	30,200
– Minimum allowance	3,510
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,500
Enterprise investment scheme relief limit (Relief at 30%) (Note 6)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	100,000
Social investment relief limit (Relief at 30%)	1,000,000

- 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) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
- (5) 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.
- (6) 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

2021

TAX TABLES

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note) £	Lifetime allowance £	Minimum pension age
2020/21	40,000	1,073,100	55

Note: The annual allowance is tapered by £1 for every £2 of adjusted income above £240,000 for individuals with threshold income above £200,000. It cannot be reduced below £4,000.

ITEPA mileage rates

Vehicles

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

Note: For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2020/21

Emissions	Electric range(miles)	Car benefit % Pre 6 April 2020 registration (note)	Car benefit % On/after 6 April 2020 registration (note)	
0g/km	N/A	0%	0%	
1-50g/km	>130	2%	0%	
1-50g/km	70-129	5%	3%	
1-50g/km	40-69	8%	6%	
1-50g/km	30-39	12%	10%	
1-50g/km	<30	14%	12%	
51-54g/km		15%	13%	
55-59g/km		16%	14%	
60-64g/km		17%	15%	
65-69g/km		18%	16%	
70-74g/km		19%	17%	
75g/km or more		20%	18%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%		
170g/km or more			37%	

Note: 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 £24,500

Taxable benefits for vans – 2020/21

Van benefit – No CO ₂ emissions	£2,792
Van benefit – CO ₂ emissions > 0g/km	£3,490
Fuel benefit	£666

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TAX TABLES

Childcare

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

Note: 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.

2020/21 Official rate of interest 2.25%

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

Plan 1 (loan taken out pre 1.9.12 or at any time if taken out in Scotland)

Employee earnings threshold at which repayment begins is £1,615 per month.

Plan 2 (loan taken out in England and Wales on/after 1.9.12)

Employee earnings threshold at which repayment begins is £2,214 per month.

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold at which repayment begins is £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 £120.00 or more	£95.85
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £151.20 and 90% of AWE
Statutory shared parental pay /paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £151.20

QUALIFYING CARE RELIEF

Year to 5 April 2021	Flat rate	Placement < 11	Placement ≥ 11
	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2021	Weekly rate
Rates	£
First child	21.05
Each subsequent child	13.95

Child benefit charge	Withdrawal rate
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

ATT EXAMINATIONS 2021 TAX TABLES

HMRC INTEREST RATES

Late payment interest	2.6%
Underpaid corporation tax instalments interest	1.1%
Repayment interest	0.5%
Credit interest	0.5%

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits

	Annual	2020/21 Monthly	Weekly
	£	£	£
Lower earnings limit (LEL)	6,240	520	120
Primary threshold (PT)	9,500	792	183
Secondary threshold (ST)	8,788	732	169
Upper earnings limit (UEL)	50,000	4,167	962
Upper secondary threshold for U21 (UST) (Note 1)	50,000	4,167	962
Apprentice upper secondary threshold for U25 (AUST) (Note 2)	50,000	4,167	962

2020/21

Employment allowance

Per year, per employer	£4,000
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Class 1 primary contribution rates

Earnings between PT and UEL	12%
Earnings above UEL	2%

Class 1 secondary contribution rates

Earnings above ST (Notes 1 & 2)	13.8%
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Other contribution limits and rates

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

Class 2 contributions

Normal rate	£3.05 pw
Small profits threshold	£6,475 pa

Class 3 contributions

£15.30 pw

Class 4 contributions

Annual lower profits limit (LPL)	£9,500
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

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%.

ATT EXAMINATIONS

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TAX TABLES

SIMPLIFICATION MEASURES

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

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles	45p per mile	
	Additional business mile	25p 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

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

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) (Note 4)	3%

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019 to 31 December 2020 (£200,000 from 1 January 2021).

(2) The main pool rate applies to cars with CO₂ emissions of not more than 110 g/km.

(3) The special pool rate applies to cars with CO₂ emissions greater than 110 g/km.

(4) The SBA rate was 2% prior to April 2020.

First year allowances available to all businesses

- Capital expenditure incurred by a person on research and development.
- New zero-emission goods vehicles.
- New cars if the car either emits not more than 50 g/km of CO₂ or it is electrically propelled.
- Electric vehicle charging points expenditure.

VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits

Annual registration limit	From 1.4.20 £85,000
De-registration limit	£83,000

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 June 2020)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	10p	6p	1600cc or less	8p
1401cc to 2000cc	12p	8p	1601cc to 2000cc	9p
Over 2000cc	17p	11p	Over 2000cc	12p

Electricity rate 4p

ATT EXAMINATIONS

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TAX TABLES

CORPORATION TAX

Financial year	2020	2019
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies – RDEC	13% (12% prior to 1 April 2020)

Note: Small and medium sized enterprises (SMEs) must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note)	Lifetime rate	20%
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Note: A lower rate of IHT of 36% applies where 10% or more of the deceased person'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 2021	£325,000

Residence nil rate bands (Note)

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 2021	£175,000

Note: 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

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TAX TABLES

CAPITAL GAINS TAX

Annual exempt amount **2020/21**
£12,300

CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal 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 & individuals paying the remittance basis charge

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

CGT Rate for PRs

All gains (Note 5) 20%

Business Asset Disposal relief

Relevant gains (lifetime maximum) (Note 6) £1 million

Investors' relief

Relevant gains (lifetime maximum) £10 million

- 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 business asset disposal relief/investors' relief first.
 (3) The remaining basic rate band is calculated as £37,500 (2020/21) less taxable income less any gains on which business asset disposal relief 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 28% 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

2021

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

**PAPER 3
SHORT FORM QUESTIONS
TEST "1" (40 MARKS)**

1. Darren exercised 1,000 options in his employer's Enterprise Management Incentives Scheme in March 2021. The market value at the time of exercise was £5.50 per share.

He was granted the options in 2017 at a price of £3.50 per share. The market value at the time of grant was £4.25 per share.

- 1) **State the maximum value of shares over which an employee can be granted options over under the Enterprise Management Incentives scheme and the maximum value of shares in the company over which unexercised options can be held.** (1)

- 2) **State the Income Tax implications of the grant and exercise of Darren's options.** (3)

2. **Briefly explain PAYE reporting under Real Time Information.** (2)

3. Sadiq started his sole trade business on 1 January 2019, drawing up accounts to 30 June each year. His results for his first accounting periods are as follows:

	£
P/e 30 June 2019	10,000
Y/e 30 June 2020	35,000

- Calculate the assessable profits for the first three years of assessment, showing clearly the basis periods and the amount of any overlap profits carried forward.** (4)

4. Belle is an architect and has registered under the VAT Flat Rate Scheme. Her VAT exclusive turnover for the quarter ended 31 December 2020 is £150,000 and she has made standard-rated purchases of £50,000 (VAT exclusive) in the quarter. The flat rate applicable to an architect is 14.5%.

- Compute the VAT payable by Belle for the quarter ended 31 December 2020, using both the flat rate and the normal method of calculation.** (2)

5. On 1 May 2020, Jenny was notified that she was to be made redundant by her employer after many years of service. Having worked her notice period, she left the employment on 31 July 2020. Her employer gave her the following redundancy package:

- 1) A statutory redundancy payment of £12,000.
- 2) An ex gratia payment of £20,000.
- 3) A terminal bonus of £10,000 as she completed the project that she was working on.
- 4) A payment of £15,000 as she agreed not to work for her employer's competitor for a period of one year following her redundancy.
- 5) Participation in a retraining programme costing £1,500.

Calculate the total amounts which are subject to Income Tax and National Insurance Contributions, identifying the class of National Insurance Contributions payable. (4)

6. Nita is VAT registered and has run her event planning business for many years. In the quarter ended 31 March 2021, she made the following transactions. All amounts are inclusive of VAT:

	£
Sales	150,000
Purchases for business purpose	216,000
Purchase of motor car with 70% private use	12,500
Servicing of motor car with 70% private use	360
Annual staff Christmas party	3,000
Purchase of a watch as a gift for a staff member	350

In addition, on reviewing her debtors ledger, Nita noted that £12,000 owed by one client is now more than six months overdue.

Calculate the net VAT due to/reclaimable from HM Revenue & Customs on the VAT return for the quarter ended 31 March 2021, and briefly explain whether VAT is recoverable on each cost. (4)

7. Aamil and Badal have been in partnership for many years drawing up accounts to 31 December each year. Profits were shared between the partners in the ratio 60% to Aamil and 40% to Badal. Chris joined the partnership on 1 August 2020.

Chris is given an annual salary of £12,000. The remaining profits are shared 50% to Aamil, 40% to Badal and 10% to Chris.

The partnership profits for the year ended 31 December 2020 are £150,000.

Allocate the partnership profits for the year ended 31 December 2020. (3)

8. On 1 July 2019 Reliant Ltd, a close company, made a loan of £100,000 to Julie, one of its shareholders. The loan was repaid as follows:

	£
30 June 2020	20,000
1 December 2020	40,000
10 June 2021	40,000

Reliant Ltd draws up accounts to 31 December.

Calculate the 's.455 tax' payable by Reliant Ltd on the loan and state when it is payable. State the dates when the 's.455 tax' will be repayable to Reliant Ltd. (3)

9. Pigeon Ltd, Mallard Ltd and Goose Ltd are all under the common control of Snipe Ltd. An application was made on 1 March 2021 for VAT group registration.

State three consequences of group registration and the date from which the group registration will take effect. (4)

10. Bryn is resident and domiciled in the UK. He is being seconded to Ruritania for a period of three months to work for his employer's foreign subsidiary and will be paid a £50,000 salary. All travel and board and lodgings expenses will be reimbursed by his employer. In addition, Bryn's wife will travel out once to visit him. The cost of her return flight will also be reimbursed by the company.

Briefly explain how Bryn's salary and expenses and the cost of his wife's trip will be treated for UK tax purposes. (3)

11. Nicola was provided with a newly registered company car by her employer on 6 December 2020. The car emits 70g/km of CO₂ emissions and has a list price of £20,000, although her employer obtained the car at a 25% discount. Nicola made a capital contribution of £2,000 towards the car and contributed £50 per month in the tax year for private use.

Calculate the National Insurance Contributions due on the provision of the car and state by when they must be paid. (3)

12. Mark earns £2,000 gross per month in his employment. He has been issued with a K tax code by HM Revenue & Customs.

He also holds 2,000 non-tax advantaged share options in his employer's company. The shares are readily convertible assets. In May 2021, he exercises his options. At this time the market value of the shares is £5 higher than the option price.

Explain how the Income Tax and National Insurance Contributions will be collected on the exercise of Mark's options. (4)

**TEST "1"
ANSWERS**

1. The maximum value of shares over which an employee can hold options under the enterprise management incentives scheme is £250,000. [$\frac{1}{2}$]

The maximum value of shares over which unexercised options can be held is £3 million. [$\frac{1}{2}$]

Darren's options have the following income tax consequences:

No tax charge at grant. [$\frac{1}{2}$]

As the options are granted at a discount [$\frac{1}{2}$], tax is due on the lower of:

- MV at grant (£4.25 x 1,000) = £4,250 [$\frac{1}{2}$] and
- MV at exercise (£5.50 x 1,000) = £5,500 [$\frac{1}{2}$]

Less amount paid for the options, i.e. the option price (£3.50 x 1,000) = £3,500 [$\frac{1}{2}$]

Tax will be due on employment income of (4,250 – 3,500) = £750 [$\frac{1}{2}$]

Total 4

2. Under RTI, an employer must report an employee's pay and tax/NIC deductions at, or before, the time a payment is made to an employee. [1]

The information is reported on a Full Payment Submission [$\frac{1}{2}$] which must be submitted electronically to HMRC [$\frac{1}{2}$]

[$\frac{1}{2}$ mark for any other relevant points, to a maximum of 2 marks.]

3.	Basis Period	£	
2018/19	1.1.19 – 5.4.19 3/6 x 10,000	<u>5,000</u>	[1]
2019/20	1.1.19 – 31.12.19 10,000 + (6/12 x 35,000)	<u>27,500</u>	[1]
2020/21	Y/e 30 June 2020	<u>35,000</u>	[1]

Overlap Profits:

1.1.19 – 5.4.19 (3/6 x 10,000)	£	[$\frac{1}{2}$]
1.7.19 – 30.12.19 (6/12 x 35,000)	5,000	
	<u>17,500</u>	[$\frac{1}{2}$]
	<u>22,500</u>	

Total 4

4. Under the flat rate scheme, VAT is payable on the VAT inclusive turnover figure.
 150,000 x 1.2 = £180,000 [$\frac{1}{2}$]
 180,000 x 14.5 % = £26,100 [$\frac{1}{2}$]

[Penalise $\frac{1}{2}$ mark if input tax is deducted]

Using the normal method of calculation, the VAT payable is:

	£	
Output tax (150,000 @ 20%)	30,000	
Less: Input tax (50,000 @ 20%)	<u>(10,000)</u>	
	<u>20,000</u>	[1]
		Total 2

- 5.

	Amount £	Tax £	Class 1 NICs £	Class 1A NICs £	
Statutory redundancy	12,000				
Ex gratia	<u>20,000</u>				
	32,000				[1]
Threshold	<u>(30,000)</u>				[$\frac{1}{2}$]
Excess	2,000	2,000	-	2,000	[1]*
Terminal bonus	10,000	10,000	10,000	-	[$\frac{1}{2}$]*
Restrictive covenant	15,000	15,000	15,000	-	[$\frac{1}{2}$]*
Retraining	Exempt	-	-	-	[$\frac{1}{2}$ for omitting]
Total		<u>27,000</u>	<u>25,000</u>	<u>2,000</u>	

*[*Note – need to get both Tax & NIC treatment correct to earn marks]*

Total 4

- 6.

Input tax:	£	
Business purchases: 216,000 x 1/6	36,000	[$\frac{1}{2}$]
Car purchase – not recoverable as private use		[$\frac{1}{2}$]
Servicing – all recoverable as element of business use		
360 x 1/6	60	[$\frac{1}{2}$]
Staff party recoverable		[$\frac{1}{2}$]
3,000 x 1/6	500	[$\frac{1}{2}$]
Gift not recoverable as cost is more than £50*		[$\frac{1}{2}$]
Bad debt – recoverable**		
12,000 x 1/6	<u>2,000</u>	[$\frac{1}{2}$]
	38,560	
Less: Output tax		
Sales: 150,000 x 1/6	<u>(25,000)</u>	[$\frac{1}{2}$]
Recoverable	<u>13,560</u>	

*[*Note - credit will also be given if the VAT is recovered and output tax charged on the gift.]*

*[**Note – credit will also be given if candidates stated that they assumed the debt had not been written off in the accounts and therefore did not qualify for bad debt relief.]*

Total 4

7.

	Total £	Aamil £	Badal £	Chris £	
<u>Y/e 31.12.20</u>	<u>150,000</u>				
1.1.20 – 30.7.20 (7/12 x 150,000)	87,500				[½]
Balance (60:40)	<u>(87,500)</u>	52,500	35,000		[½]
	<u>Nil</u>				
1.8.20 – 31.12.20 (5/12 x 150,000)	62,500				[½]
Salary (5/12 x £12,000)	<u>(5,000)</u>			5,000	[½]
	<u>57,500</u>				
Balance (50:40:10)	<u>(57,500)</u>	<u>28,750</u>	<u>23,000</u>	<u>5,750</u>	[1]
	<u>Nil</u>	<u>81,250</u>	<u>58,000</u>	<u>10,750</u>	

Total 3

8. S.455 tax calculated as 32.5% x lower of:

- Loan outstanding at end of the AP, and
- Loan outstanding on normal due date for payment of CT liability.

Loan outstanding at 31 December 2019 = £100,000

Loan outstanding at 1 October 2020 = £80,000

s.455 tax payable on 1 October 2020 = 32.5% x £80,000 = £26,000 [1]

S.455 tax is repayable when the loan is repaid. It is repaid 9 months and 1 day after the end of the AP in which the loan is repaid.

£40,000 loan repaid in y/e 31 December 2020

Therefore £13,000 S.455 tax repayable on 1 October 2021 (being 32.5% x £40,000) [1]

£40,000 loan repaid in y/e 31 December 2021

Therefore £13,000 S.455 tax repayable on 1 October 2022 (being 32.5% x £40,000) [1]

Total 3

9. Consequences:

- All supplies made to and by individual group members are treated as if they were carried out by the representative member. [1]
- Each group must appoint a representative member which accounts for the group's input and output VAT, all of which is declared on a single group return. [1]
- Any supply of goods or services by a member of the group to another member of the group is disregarded for VAT purposes. [1]
- All group members share joint and several liability for the VAT debts and obligations of the group. [1]

Max 3

Date:

Group registration will take effect from the date of the application, i.e. 1 March 2021. [1]

Total 4

10. As Bryn is resident and domiciled in the UK, his worldwide salary will be chargeable to UK tax. [1]

The board and lodgings and return airfare are allowable for tax purposes (under ITEPA 2003 s.338) as Ruritania is a temporary workplace and therefore the reimbursement is exempt income. [1]

The reimbursement of the cost of his wife's journey is also exempt as Bryn's period of absence is at least 60 continuous days. [1]

[Note: candidates are not required to quote section numbers.]

Total 3

11. 70 g/km = 17% [$\frac{1}{2}$]

List price reduced by capital contribution = £18,000 [$\frac{1}{2}$]

17% x 18,000 = 3,060 x 4/12 months = £1,020 [$\frac{1}{2}$]

Less private use contribution (£50 x 4 months) = £820 [$\frac{1}{2}$]

820 x 13.8% Class 1A NIC = £113 [$\frac{1}{2}$]

Class 1A NIC must be paid on or before 22 July 2021 where payment made electronically (19 July otherwise) [$\frac{1}{2}$]

Total 3

12. As the shares are readily convertible assets, the income tax and NIC are collected via PAYE. [$\frac{1}{2}$].

The tax and NIC due on the £10,000 increase in value will initially be collected from Mark's salary, reducing his net pay to nil [$\frac{1}{2}$]. Although generally the maximum amount of tax that can be deducted cannot exceed 50% of a payment, [$\frac{1}{2}$] this limit is ignored for these purposes and so the amount of tax deducted can exceed 50% of his gross pay. [$\frac{1}{2}$]

Although Mark does not have enough net pay to cover the full amount of tax and NIC due, the employer must pay the excess to HMRC within 17 days of the end of the tax month in which the exercise occurred where payment made electronically (otherwise 14 days) [$\frac{1}{2}$]. The employer must then collect this amount from Mark within 90 days from the end of the tax year in which the exercise took place. [$\frac{1}{2}$]

If Mark has not paid the tax within this period, the additional tax becomes a taxable benefit [$\frac{1}{2}$] and should be reported on his form P11D. [$\frac{1}{2}$]

The NIC due should be collected from any further payments made to Mark. [$\frac{1}{2}$]

Max 4

**PAPER 3
SHORT FORM QUESTIONS
TEST "2" (40 MARKS)**

1. Linda is VAT registered and makes both standard rated and exempt supplies. In the quarter ended 31 March 2021 she made taxable supplies of £120,000 and £35,000 of exempt supplies. After directly attributing as much input tax as she can, the following position arises:

	£
Attributed to taxable supplies	5,200
Attributed to exempt supplies	800
Unattributed VAT	<u>7,500</u>
Total	<u>13,500</u>

Calculate the amount of input tax that Linda is able to recover. (3)

2. Chandler is a VAT registered trader with an annual turnover of £250,000 (VAT exclusive). His VAT return for the quarter ending 30 September 2020 was not filed until 8 December 2020. The VAT due was paid at the same time. This is the first time Chandler has submitted a late return or made a late payment.

Briefly explain:

- 1) **The due date for filing the VAT return for the quarter ending 30 September 2020.**
 - 2) **The default surcharge implications of the late return and payment and the consequences if subsequent payments are made late.**
- (4)

3. Derek, an engineer, is the sole director and employee of Drawings Ltd. Drawings Ltd has an annual contract with Big Bricks plc to provide engineering services at £40,000 per year. In addition, Drawings Ltd received £8,000 from other one-off engagements during 2020/21.

Drawings Ltd paid £3,000 into Derek's registered personal pension and also reimbursed Derek £2,000 of qualifying business travel expenses. Derek is paid a salary of £12,000 per year.

Calculate the deemed employment payment made to Derek by Drawings Ltd for 2020/21. (4)

4. David had been trading for many years as a sole trader, drawing up accounts to 31 October each year. He ceased to trade on 31 December 2020. Trading profits for recent years are as follows:

	£
Y/e 31 October 2019	60,000
Y/e 31 October 2020	45,000
P/e 31 December 2020	3,000

He has overlap profits brought forward of £4,000.

Calculate the assessable profits for the final two tax years of trade, clearly showing the basis periods. (3)

5. Joseph Ltd had the following transactions during the quarter ended 30 September 2020:

	£
Cash sales	30,000 (VAT inclusive)
Credit sales	18,000 (VAT inclusive)
Credit purchase	33,300 (VAT inclusive)

Show the journal entries required to record these transactions. (3)

6. Helen earns £36,000 per annum and pays a 5% contribution into her employer's occupational pension scheme. She received a £5,000 Christmas bonus in December 2020. Helen is repaying a postgraduate loan.

Calculate the monthly postgraduate loan deductions payable by Helen and briefly explain when the deductions are payable to HM Revenue & Customs. (3)

7. Paving Stone Ltd is a contractor operating within the Construction Industry Scheme.

1) State the return which Paving Stone Ltd is required to submit to HM Revenue & Customs under the Construction Industry Scheme, and its due date. (1)

2) Explain the consequences should Paving Stone Ltd file this return seven months late. (3)

8. Hathaway Ltd owns 70% of Shakespeare Ltd and 40% of Stratford Ltd. It was a large company for the year ended 31 March 2021. For the year ended 31 March 2022 its taxable total profits will be £14 million.

Calculate the Corporation Tax payments required to be made for the year ended 31 March 2022, giving the due dates of payment. (4)

9. Dave works at an art gallery. On 1 May 2020 his employer agreed to loan him a painting with a market value of £6,000. On 1 April 2021, the employer gave the painting to Dave in lieu of a bonus. At the time of the gift, the market value of the painting was £5,500.

Calculate the Class 1A National Insurance Contributions payable by Dave's employer in respect of the loan and transfer of the painting and state the due date for payment. (3)

10. Frank employs full time employees within his business, but also engages the services of self-employed contractors.

1) Briefly explain how HM Revenue & Customs will collect Income Tax from the employees and the self-employed contractors. (2)

2) State the different classes of National Insurance Contributions which will need to be paid to HM Revenue & Customs in respect of the employees and contractors, assuming Frank does not provide any benefits to his employees. (2)

11. X Ltd has a paybill of £600,000 for the month ended 5 May 2020 and £700,000 for the month ended 5 June 2020.

Calculate the amount of the apprenticeship levy payable, if any, for the month ended 5 June 2020 and state the due date for payment. (3)

12. Darren pays 8% of his salary into his employer's occupational pension scheme. His employer contributes a further 6% on his behalf. Darren's annual salary is £50,000.

Calculate the amount of Darren's earnings which will be subject to Income Tax and National Insurance Contributions. (2)

TEST "2"
ANSWERS

1. The simplified de minimis tests are not met. Total input tax less input tax directly attributable to taxable supplies exceeds £625 per month on average.

The amount of unattributed VAT which is apportioned to the making of taxable supplies is:

$$120,000/155,000 = 77.4 \text{ rounded up to } 78\% \quad [1]$$

$$\text{Unattributed input tax recoverable is therefore } 78\% \times 7,500 = 5,850 \quad [1/2]$$

$$\text{Total input tax recoverable } (5,200 + 5,850) = 11,050 \quad [1/2]$$

$$\text{Exempt input tax } (7,500 - 5,850 + 800) = 2,450 \quad [1/2]$$

This is not recoverable as it exceeds the de minimis limit. [1/2]

Total 3

2. The due date for filing the VAT return for the quarter ended 30 September 2020 is 7 November 2020, [1/2] being one calendar month after the end of the quarter plus 7 days. [1/2]

The late return and payment for the quarter ended 30 September 2020 is a default [1/2] and will result in the issue of a surcharge liability notice. [1/2] The notice is effective for a period of 12 months (known as the surcharge period). [1/2]

If a payment is made late in the surcharge period [1/2] it will be extended to 12 months from the end of the quarter of default. [1/2] A surcharge will be levied, being a percentage of the VAT paid late. [1/2] The percentage will depend on the number of defaults in the surcharge period. [1/2]

[Credit also given for any other valid points]

Max 4

3.

	£	
Income from relevant engagements	40,000	[½]
Less:		
– 5% automatic deduction	(2,000)	[½]
– Expenses paid	(2,000)	[½]
– Employer pension contributions	(3,000)	[½]
– Employer NIC on salary (W)	(443)	[½]
– Salary paid to Derek	<u>(12,000)</u>	[½]
Gross deemed payment	20,557	
Less: Employer's NIC on gross payment: x 13.8/113.8	<u>(2,493)</u>	[½]
Net deemed payment	<u>18,064</u>	[½]

Working

Class 1 Secondary NIC (12,000 – 8,788) @ 13.8% 443

Tutorial Note:

The NIC employment allowance is not available where the worker is a director and the only paid employee of the company.

Total 4

4.

	Basis Period	£	
2019/20	Y/e 31 October 2019	<u>60,000</u>	[1]
2020/21	1.11.19 – 31.12.20		[½]
	Y/e 31 October 2020	45,000	[½]
	P/e 31 December 2020	3,000	[½]
	Less: overlap profits	<u>(4,000)</u>	[½]
		<u>44,000</u>	

Total 3

5.

	£	£	
Dr Cash	30,000		
Cr Sales		25,000	
Cr VAT control		5,000	[1]
Dr Debtors	18,000		
Cr Sales		15,000	
Cr VAT control		3,000	[1]
Dr Purchases	27,750		
Dr VAT control	5,550		
Cr Creditors		33,300	[1]

Total 3

6. £3,000 monthly salary [$\frac{1}{2}$] used – pension contributions ignored as do not reduce salary subject to NICs.

$3,000 - 1,750 \text{ threshold} \times 6\% [\frac{1}{2}] = \text{£}75 \text{ for 11 months } [\frac{1}{2}]$

December: $8,000 - 1,750 \times 6\% = \text{£}375 [\frac{1}{2}]$

Postgraduate loan deductions are payable to HMRC each month [$\frac{1}{2}$] on the 22nd if paying electronically (otherwise 19th) [$\frac{1}{2}$].

Total 3

7. Returns

Paving Stone Ltd is required to submit form CIS 300 to HMRC. [$\frac{1}{2}$]

The due date for submission of the CIS 300 to HMRC is 19th of the month. [$\frac{1}{2}$]

Penalties

A late CIS 300 return attracts a fixed penalty of £100 [$\frac{1}{2}$]. As the return is outstanding for more than two months [$\frac{1}{2}$] after the filing date, a further fixed penalty of £200 will be due [$\frac{1}{2}$]. A further penalty is due as the return is more than six months late [$\frac{1}{2}$] calculated as the greater [$\frac{1}{2}$] of £300 or 5% of the deductions due. [$\frac{1}{2}$]

Total 4

8. Very large company threshold = £20 million / 2 (one 51% related company) = £10 million. [1]

Tax due = £14m x 19% = 2,660,000. [$\frac{1}{2}$]

Instalments £2,660,000 / 4 = £665,000. [$\frac{1}{2}$]

Instalment	Due	£	
1	14.6.21	665,000	[$\frac{1}{2}$]
2	14.9.21	665,000	[$\frac{1}{2}$]
3	14.12.21	665,000	[$\frac{1}{2}$]
4	14.3.22	665,000	[$\frac{1}{2}$]

Total 4

9. 2020/21 benefit: £6,000 x 20% [$\frac{1}{2}$] x 11/12 [$\frac{1}{2}$] = £1,100

Transfer: higher of

a) Market value at transfer: £5,500 [$\frac{1}{2}$]

b) Original market value: £6,000 less amount charged for use (£1,100) [$\frac{1}{2}$] = £4,900

Class 1A NIC payable by Dave's employer: £1,100 + £5,500 = £6,600 x 13.8% = £911 [$\frac{1}{2}$]

The due date for payment of the Class 1A NIC is 22 July 2021 (19 July if not paying electronically). [$\frac{1}{2}$]

Total 3

10.

1)

If an individual is employed, tax will be collected via the Pay As You Earn system [½] and paid over to HMRC by the employer on a monthly basis. [½]

Self-employed individuals will compute their own tax under the self-assessment system [½] and pay it directly to HMRC by the 31 January following the end of the tax year. [½]

2)

Frank will need to deduct primary Class 1 contributions from all wage payments to employees [½] and pay secondary Class 1 contributions on all wages [½]. The self-employed contractors will pay Class 2 contributions [½] and Class 4 contributions [½].

Total 4

11.

Month ended 5 May 2020	£	
600,000 x 0.5%	3,000	[½]
Less: Levy allowance		
1/12 x 15,000	<u>(1,250)</u>	[½]
Amount payable	<u>1,750</u>	
Month ended 5 June 2020		
1,300,000 x 0.5%	6,500	[½]
Less: Levy allowance		
2/12 x 15,000	<u>(2,500)</u>	[½]
	4,000	
Less: Amount paid for May	<u>(1,750)</u>	[½]
Amount payable	<u>2,250</u>	
Due for payment 22 nd June 2020 (19 th if not paid electronically).		[½]

Total 3

12.

Earnings subject to tax:
 $£50,000 - (£50,000 \times 8\%) = £46,000$ [1]

Earnings subject to NIC = £50,000. [1]

Tutorial Note:

No NIC relief is given for employee pension contributions

Total 2

**PAPER 3
SHORT FORM QUESTIONS
TEST "3" (40 MARKS)**

- 1.
- 1) **Explain when a business will be required to compulsorily register for VAT.** (2)
 - 2) **State the condition which needs to be satisfied in order to voluntarily deregister for VAT.** (1)
2. Mark was appointed as a director on 1 January 2021. He receives director's fees of £1,500 per month and was paid a bonus of £20,000 in March 2021.
- Calculate the amount of Class 1 primary National Insurance Contributions payable by Mark in January, February and March 2021.** (4)
3. In the quarter ending 31 December 2020, Albus made purchases on credit of £72,000 and cash sales of £120,000. All figures are inclusive of VAT.
- State the journal entries required to record these transactions in the VAT control account.** (3)
4. Apple, Briar and Clover are in partnership, drawing up accounts to the year ended 31 December each year. Apple and Briar receive salaries of £15,000 and £12,000 per annum respectively. The partners share the remaining profits in the ratio 45%:30%:25% for Apple, Briar and Clover respectively. During the year ended 31 December 2020 the partnership made a tax adjusted profit of £110,000.
- Show the allocation of the tax adjusted profits for the year ended 31 December 2020 between the partners.** (2)
5. On 1 March 2021, Jenny, aged 18, commenced part-time employment on a salary of £1,000 per month. This is Jenny's first job since leaving school and she is paid on the last day of each month.
- Calculate the National Insurance Contributions payable in respect of Jenny for 2020/21.** (2)
6. Joey has been trading for a number of years and operates a number of different businesses which make various supplies of goods and services. The range of goods and services are as follows:
- (a) Adults' clothing;
 - (b) Cookery books;
 - (c) Financial services; and
 - (d) Children's footwear.
- State the VAT liability of each of the items listed.** (2)

7. Crown Ltd was incorporated on 1 March 2020, and on 1 May 2020 opened an interest-bearing bank account with an initial deposit of £10,000. On 1 August 2020, the company began to trade. It prepared its first set of accounts to 31 October 2021.

State, with brief explanations, the dates of all of the chargeable accounting periods for Crown Ltd based on the above information. (4)

8. Sarita and Nilesh qualify for Shared Parental Leave (SPL) and Shared Parental Pay (ShPP) following the birth of their baby.

State:

1) The maximum period for which SPL and ShPP can be claimed.

2) How Sarita and Nilesh can share entitlement to SPL and ShPP.

3) By when SPL must be taken and any restriction on how it can be taken.

(4)

9. Carmen would like to make a donation of £100 to her favourite animal charity. She is an employee and a basic rate taxpayer.

Explain two ways in which Carmen could make this donation tax efficiently. (2)

10. At Christmas, Tak Ltd provides its 40 employees with a £100 voucher for a high street retailer and a Christmas jumper costing £10.

A Christmas party was also held, which all employees attended. The cost of the party was £4,000.

Tak Ltd does not wish to apply for a PAYE Settlement Agreement and has not registered with HMRC to include any benefits in payroll.

Explain how the benefits provided by Tak Ltd will be treated for Income Tax and National Insurance Contributions purposes. (4)

11. Galactica Ltd, a company with offices in the UK and Caprica, provides the following details about two of its employees:

Adama

Adama is not resident and not domiciled (or deemed domiciled) in the UK. He works in Caprica for the majority of the time but is often required to visit the UK to perform some of his employment duties.

Roslin

Roslin first became UK resident in 2020/21. She works in the UK but claims the remittance basis as she is domiciled in Caprica. She has a single contract of employment with Galactica Ltd. She works in Caprica for two months each year, for which she is paid directly into her Caprican bank account. She does not remit these earnings to the UK.

Briefly explain whether Adama's and Roslin's earnings from Galactica Ltd will be subject to UK Income Tax. (4)

12. **Briefly explain:**
- 1) **How an employer should report Statutory Paternity Pay to HM Revenue & Customs.**
 - 2) **The process by which a large employer will recover this payment from HM Revenue & Customs.**
- (2)
13. **Briefly describe how the annual accounting scheme for VAT operates and the turnover conditions which must be satisfied to be eligible to join and continue to use the scheme.**
- (2)
14. Gemma has been a sole trader for a number of years. She was very busy in early 2021 and therefore did not submit her income tax return for 2019/20 until 31 May 2021.
- State the penalties that will apply in respect of the late filing of the return.**
- (2)

**TEST "3"
ANSWERS**

- 1.
- 1) A business will need to register for VAT if either, at the end of any calendar month, its taxable supplies in the previous 12 months exceed £85,000 [1] or, at any time, there are reasonable grounds for believing its taxable supplies in the next 30 days will exceed £85,000. [1]
 - 2) In order to voluntarily deregister, taxable supplies must not be expected to exceed £83,000 in the next 12 months. [1]

Total 3

2. Earnings thresholds are pro-rated as Mark was appointed as a director part way through the tax year:

$$PT = 9,500 \times 3/12 = \text{£}2,375 \text{ [}\frac{1}{2}\text{]}$$

$$UEL = 50,000 \times 3/12 = \text{£}12,500 \text{ [}\frac{1}{2}\text{]}$$

January: £1,500 earnings below the primary threshold = no NIC due [½]

February: £3,000 earnings to date less PT of £2,375 = £625 [½] x 12% = £75 [½]

March: £24,500 earnings to date:

$$UEL \text{ } 12,500 - 2,375 \times 12\% = \text{£}1,215 \text{ [}\frac{1}{2}\text{]}$$

$$24,500 - UEL \text{ } 12,500 \times 2\% = \text{£}240 \text{ [}\frac{1}{2}\text{]}$$

$$\text{Total NIC} = 1,455 - \text{NIC already paid of } 75 = \text{£}1,380 \text{ [}\frac{1}{2}\text{]}$$

Total 4

3.

Dr Purchases (72,000 x 5/6)	£60,000		[½]
Dr VAT control (72,000 x 1/6)	£12,000		[½]
Cr Creditors		£72,000	[½]
Dr Cash	£120,000		[½]
Cr Sales (120,000 x 5/6)		£100,000	[½]
Cr VAT control (120,000 x 1/6)		£20,000	[½]

Total 3

4.

	Total £	Apple £	Briar £	Clover £	
Y/e 31 December 2020	110,000				
Salary	<u>(27,000)</u>	15,000	12,000		[1]
	83,000				
PSR 45:30:25	<u>83,000</u>	<u>37,350</u>	<u>24,900</u>	<u>20,750</u>	[1]
	Nil	52,350	36,900	20,750	
					Total 2

5. Class 1 primary NICs: 1,000 – PT of 792 [$\frac{1}{2}$] = 208 x 12% = £25 [$\frac{1}{2}$]
 Class 1 secondary NICs: 1,000 – ST of 732 = 268 x 0% (as under 21) = Nil [1]
- Total 2**

- 6.
- | | |
|-----------------------------------|-------------------|
| Adults' clothing – standard rated | [$\frac{1}{2}$] |
| Cookery books – zero rated | [$\frac{1}{2}$] |
| Financial services – exempt | [$\frac{1}{2}$] |
| Children's footwear – zero rated | [$\frac{1}{2}$] |
| | Total 2 |

7. 1 May 2020 – 31 July 2020 [$\frac{1}{2}$]
 Company first comes into the charge to corporation tax when it acquires a source of taxable income, here, bank interest. [1]
 Next period starts when company commences trade. [$\frac{1}{2}$]
- 1 August 2020 – 31 July 2021 [$\frac{1}{2}$]
 12 month period expires before next accounting date, so accounting period ends after 12 months. [$\frac{1}{2}$]
- 1 August 2021 – 31 October 2021 [$\frac{1}{2}$]
 Accounting period ends with the accounting date of the company. [$\frac{1}{2}$]
- Total 4**

8. 1) The maximum period of SPL is 50 weeks [½] and the maximum period for which ShPP is paid is 37 weeks. [½]

Tutorial Note:

Statutory maternity leave must be taken for two weeks.

- 2) Sarita and Nilesh can share the leave (and pay) as they wish. [1]
- 3) SPL must be taken within a year of the baby's birth. [1] If the leave is taken in separate blocks, no more than 3 blocks can be taken. [1]

Total 4

9. Carmen could make a donation under the Gift Aid scheme. [½] Under the Gift Aid scheme, Carmen would make a donation net of basic rate tax, i.e. she could give the charity £80, receiving basic rate relief at source, and the charity would claim back the basic rate tax of £20 from HMRC. [½]

As an employee, Carmen could make a donation under Payroll Giving if her employer operates a scheme. [½] Under Payroll Giving, £100 would be deducted from her gross pay and she would again receive basic rate tax relief at source, via payroll. [½]

Total 2

10. Gift vouchers are taxable and should be reported on form P11D. [½] They should be subjected to Class 1 NIC via the payroll. [½]

The Christmas jumpers are provided for a non-work reason as a seasonal gift [½] and the cost of providing the benefit does not exceed £50. [½] Therefore they are trivial benefits [½] and no tax or NIC is due. [½]

The cost of provision of the Christmas Party does not exceed £150 per head and therefore is an exempt benefit. [½] No tax or NIC is due. [½]

Total 4

11. As Adama performs some duties in the UK, his earnings must be apportioned [½] to determine how much is attributable to UK duties and how much is attributable to duties performed outside the UK. Earnings attributable to UK duties will be subject to UK tax. [½] Adama will not be subject to UK tax on his earnings for duties performed outside the UK. [½]

Roslin is eligible for Overseas Workday Relief [½] as she is resident but non-domiciled and the tax year is one of 3 tax years following 3 consecutive years of non-residency. [½] Her earnings can therefore be apportioned. [½] The 10 month salary attributable to UK duties will be subject to UK tax. [½] The two months' salary earned in Caprica will not be taxed in the UK as it is not remitted here. [½]

Total 4

12. The amount of Statutory Paternity Pay (SPP) paid to an employee will be reported to HMRC on a Full Payment Submission (FPS) on or before the date of payment. [½]

The employer will be able to recover 92% of the SPP from HMRC. [½] It can offset this amount against the PAYE tax and NIC due to be paid to HMRC. [½]

The employer will also need to submit an Employer Payment Summary (EPS) [½] showing the amounts of SPP recovered from HMRC.

Total 2

13. Using the Annual Accounting Scheme, a business only has to complete one VAT return for the year within 2 months of the VAT year end [½] but will make either nine interim payments at monthly intervals, or three quarterly interim payments, throughout the year. [½]

Businesses which expect that their taxable turnover in the next 12 months will not exceed £1.35 million [½] can join the scheme. They can continue to use the scheme until their taxable turnover exceeds £1.6 million. [½]

Tutorial Note:

Credit would be given for all relevant comments.

Total 2

14. Initial penalty of £100 [1]

Daily penalties of £10 per day for 90 days (as the return was more than 3 months late). [1]

Total 2

**PAPER 3
SHORT FORM QUESTIONS
TEST "4" (40 MARKS)**

1. Annabel is a VAT registered trader and, during the quarter ended 31 March 2021, made the following transactions:

	£
Trade purchases	30,000
Cash sales	21,000
Credit sales	4,200
Sales returns	1,500
Bad debt write off (over six months old)	900
Purchase of a motor car (for both business and private use)	22,000
Rent paid	12,000
Client entertaining	6,000

Where appropriate, all amounts are inclusive of VAT.

Record these transactions in the VAT control 'T' account and explain your reasons for any omissions. (4)

2. Jasper employs 25 employees. All employees receive taxable benefits of £1,500 per annum which are not included in payroll.

- 1) **State the date by which Jasper must pay PAYE and National Insurance Contributions to HM Revenue & Customs each month.**
- 2) **State the annual forms which Jasper must issue to his employees at the end of each tax year and the dates by which these must be issued.**
- 3) **State the due date for payment of Class 1A National Insurance Contributions, the relevant form to report Class 1A to HM Revenue & Customs and the due date for submission.**

(4)

3. Eddie, a senior employee of City Ltd, is provided with a flat close to his workplace, as he often works long hours. City Ltd purchased the flat in 2018 for £70,000 and immediately spent £20,000 on improvements. Eddie moved into the flat on 1 April 2020, when its market value was £120,000. City Ltd pays for the Council Tax at a cost of £120 per month. Eddie contributes £50 per month for the use of the flat. The annual value of the property is £500.

Calculate the taxable benefit and Class 1A National Insurance Contributions arising on the provision of the flat to Eddie in 2020/21. (4)

4. **State the basic rule for determining the place of supply of services for VAT purposes.** (2)

5. Daniel, Eli and Michael are in a trading partnership which makes accounts up to 30 June each year. During the year ended 30 June 2020 the partnership made a tax adjusted profit of £16,000. The partners share profits equally after annual salaries of £18,000 and £10,000 for Daniel and Eli respectively.

Show the allocation of the tax adjusted profits for the year ended 30 June 2020 between the partners. (3)

6. Poppy has been a sole trader for many years. Her adjusted profits for the year ended 31 August 2020 are £80,000. She has no other sources of income.

Calculate her income tax and National Insurance Contributions liability for 2020/21. (3)

7. Angus runs a small business and employs Trudy as an administrator. In addition to her salary, Angus provides Trudy with an occupational pension scheme. Trudy makes employee contributions of 5% of her salary and Angus makes employer contributions of 10% of Trudy's salary into the scheme.

Explain the Income Tax and National Insurance Contributions implications of making employee and employer pension contributions. (2)

8. You act as tax adviser for a number of clients. Each one requires advice on the VAT liability of the goods they are supplying. The clients are as follows:

- a) Mr Eccles runs a charity shop selling donated clothes, toys and books to members of the public.
- b) Mrs Fern sells hot takeaway food.
- c) Mr Rayner is a private tutor who teaches French.
- d) NFL Ltd supply electricity for domestic and residential use.

State the rate of VAT which should be charged by each business. (2)

9. Mark, a recent graduate, is paid £30,000 per annum by his employer. He is paid monthly, and contributes £10 per month to charity via Payroll Giving. He received a bonus of £500 in December 2020. Mark is in repayment plan 2.

1) Explain why Mark's charitable donations will not be taken into account in calculating his student loan deductions.

2) Calculate the amount of Mark's student loan deductions for 2020/21. (3)

10. Emily is employed as a university lecturer on a salary of £50,000 per annum. She is paid monthly. In addition to her employment, she also undertakes freelance work offering private tuition. Her earnings from freelancing were £22,000 for 2020/21.

Explain which classes of National Insurance Contributions Emily will be liable to pay for 2020/21 and the rates at which they are payable. (3)

11. Alfie plc operates a tax advantaged Company Share Option Plan. In 2018, one of its employees, Darren, was granted options to buy 5,000 shares at their existing market value of £2 each.

The company's share price rose sharply and Darren decided to exercise his options on 4 December 2020. The market value of Alfie plc shares at this point was £5.50.

- 1) **Calculate the employment income assessable on Darren for 2020/21 in respect of the exercise of his options.**
- 2) **State how, and by when, the Income Tax and National Insurance Contributions due in respect of these options will be payable to HM Revenue & Customs.**

(3)

12. Norman's employer provided him with a company van and fuel card on 5 November 2020. The van emits 100g/km of CO₂. Norman uses the van for his job but is also allowed to use the van privately. He contributes £20 per month towards the cost of private fuel.

Calculate the benefit in kind assessable on Norman for 2020/21.

(2)

13. Cocktail Ltd provided the following benefits for its employees during 2020/21:

- 1) £1,000 for food and drinks at a local bar on the last Friday of every month.
- 2) An annual Christmas party costing £175 per head.

Cocktail Ltd has 20 employees, all of whom are basic rate taxpayers, and has entered into a PAYE Settlement Agreement with HM Revenue & Customs for staff entertaining.

Calculate the Income Tax and Class 1B National Insurance Contributions due for 2020/21 and state by when they must be paid.

(3)

14. **Explain when a company is a close company for corporation tax purposes.**

(2)

TEST "4"
ANSWERS

1.

VAT control account					
	£			£	
Purchases	5,000	[½]	Cash Sales	3,500	[½]
Returns	250	[½]	Credit sales	700	[½]
Bad debts	150	[½]			

The VAT on the car [½] and client entertaining [½] is blocked input VAT so is not reclaimable. There is no VAT charged on rent. [½]

Total 4

2.

- 1) PAYE and NICs are due on 22nd of each month following the tax month of payment if paying electronically (19th otherwise). [½]
- 2) Jasper must issue P60s [½] by 31 May [½] following the end of the tax year. He must also provide copies of forms P11D [½] by 6 July. [½]
- 3) Jasper must submit form P11D(b) [½] to HMRC by 6 July [½] and pay Class 1A National Insurance by 22nd July if paid electronically (19th otherwise). [½]

Total 4

3.

Flat owned by employer for less than six years before the employee moved in. Benefit therefore calculated using original cost of £70,000 plus improvements of £20,000 = £90,000 [1]

	£	
Annual value	500	[½]
(90,000 – 75,000) [½] x ORI 2.25% [½]	338	
Less: Employee contributions: (£50 x 12)	(600)	[½]
Add: Council Tax (120 x 12)	<u>1,440</u>	[½]
Total taxable benefit:	<u>1,678</u>	
 Class 1A NIC @ 13.8%	 <u>232</u>	 [½]

Total 4

4.

If the recipient of the services is another business, the place of supply is the country in which the customer belongs. [1]

Otherwise, the place of supply is the country in which the supplier belongs. [1]

Total 2

5.

	Total £	Daniel £	Eli £	Michael £	
Y/e 30 June 2020	16,000				
Salary	<u>(28,000)</u>	18,000	10,000		[½]
	(12,000)				
PSR 1:1:1	<u>12,000</u>	<u>(4,000)</u>	<u>(4,000)</u>	<u>(4,000)</u>	[½]
	Nil	14,000	6,000	(4,000)	
Allocation of notional loss:					
$\frac{14,000}{14,000 + 6,000} \times (4,000)$		(2,800)		2,800	[1]
$\frac{6,000}{14,000 + 6,000} \times (4,000)$			(1,200)	1,200	[1]
		<u>11,200</u>	<u>4,800</u>	<u>Nil</u>	
					Total 3

6.

Profits	£		
Less: PA	80,000		
	<u>(12,500)</u>		[½]
	67,500		
Tax			
37,500 @ 20%		7,500	[½]
30,000 @ 40%		<u>12,000</u>	[½]
		19,500	
Class 4 NICs			
(50,000 – 9,500) @ 9%		3,645	[½]
(80,000 – 50,000) @ 2%		<u>600</u>	[½]
		4,245	
Class 2 NICs			
52 x 3.05		<u>159</u>	[½]
			Total 3

7. Any employee contributions paid into occupational pension schemes will be deducted from salary before income tax is calculated. Tax relief is given immediately at source. [1] There is no corresponding deduction for NICs. [½]

Employer contributions are not a taxable benefit for Trudy [½] and do not give rise to any NICs liability. [½]

The contributions will, however, be taken into account when determining the annual allowance [½] and whether the annual allowance has been exceeded. [½]

Max 2

- 8.
- | | | |
|----|--|-----|
| 1) | VAT should be charged at the rate of 0% | [½] |
| 2) | Standard rated so VAT at 20% | [½] |
| 3) | This is an exempt supply of education | [½] |
| 4) | Supply of electricity is at the reduced rate of 5% | [½] |

Total 2

9. Payroll giving is ignored for student loan deduction purposes as it does not reduce the amount of income subject to NICs. [1]

$\text{£}30,000 / 12 = \text{£}2,500$ per month less threshold of $\text{£}2,214 = \text{£}286 \times 9\% = \text{£}25$ per month (rounded down to nearest whole £) $\times 11 = \text{£}275$ [1½]

December: $\text{£}3,000 - \text{£}2,214 \times 9\% = \text{£}70$ [½]

Total student loan deductions: $\text{£}345$

Total 3

10. As an employee, Emily will pay Class 1 primary [½] NICs at the rate of 12% for earnings between $\text{£}792$ and $\text{£}4,167$ [½] per month and 2% on any earnings above $\text{£}4,167$ per month. [½]

As Emily is also self-employed, she will pay Class 2 NICs [½] at the rate of $\text{£}3.05$ per week [½] and Class 4 NICs [½] at 9% on any profits in excess of $\text{£}9,500$. [½] As Emily is liable to NICs for both her employment and self-employed activity, she will be subject to the annual maxima rules to ensure that her total contributions do not exceed the maximum amount payable. [½]

[Max 3 – 1 per class]

11. Options are exercised outside the window of three to 10 years from grant, so income tax and NIC is due on exercise. [½]

	£	
MV at date of exercise (5,000 x 5.50)	27,500	[½]
Less: Option price paid (5,000 x 2.00)	<u>(10,000)</u>	[½]
Amount assessable as employment income	<u>17,500</u>	[½]

Tax and NIC is due under PAYE as the shares are readily convertible assets. [½]

The tax and NIC will be payable to HMRC by 22 December 2020 if paid electronically (19 December otherwise). [½]

Total 3

12. Van benefit: $\text{£}3,490$ [½] + fuel benefit $\text{£}666$ [½] $\times 5/12$ [½] = $\text{£}1,732$.

The contribution towards private fuel does not reduce the fuel scale charge. [½]

Note:

Candidates receive the final ½ mark for correctly ignoring the private use contribution.

Total 2

13. The annual events exemption of £150 is not available for the Christmas party as the cost per head has exceeded the threshold. The monthly event does not qualify for the annual events exemption.

[½ mark for simply identifying that the exemption is not applicable]

Grossed up at basic rate: $15,500 ((1,000 \times 12) + (175 \times 20)) \times 100/80 = £19,375$ *[½]*

Tax on grossed up benefit: $19,375 \times 20\% = £3,875$ *[½]*

NIC on benefit: $15,500 \times 13.8\% = £2,139$ *[½]*

NIC on tax: $3,875 \times 13.8\% = £535$ *[½]*

Total NIC = £2,674

*[Candidates may also use alternative method for NIC below for same credit:
NIC on grossed up amount: $£19,375 \times 13.8\% = £2,674$]*

The income tax and Class 1B NIC should be paid on or before 22 October 2021 if paying electronically (otherwise 19 October). *[½]*

Total 3

14. A close company is a company which is resident in the UK *[½]* and controlled by either:

- five or fewer participators (shareholders); or *[½]*
- any number of directors who are also shareholders. *[½]*

Control is established over a company when the above persons together own more than 50% of the company's shares. *[½]*

Total 2

LONG QUESTIONS

1. Vino Ltd, a specialist wine company, 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 2020. 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) | Explain the Income Tax and National Insurance Contributions consequences of reimbursing business expenses. | (1) |
| 2) | 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) |
| 3) | Explain the amount of the termination payment made to Miranda subject to Income Tax and National Insurance Contributions. | (4) |
| 4) | Explain Vino Ltd's reporting and payment requirements in respect of the amounts paid on termination. | (2) |
| | Total | (11) |

2. Peter Pevensie is employed as an IT specialist by Banff Ltd on an annual salary of £60,000.

As part of his employment, Peter is provided with a mobile phone at a cost of £500 per year. This is paid for by the company. In addition, the company provided Peter with a 42 inch television set which he used at home, purely for entertainment purposes. The market value of the television set when it was first made available on 6 April 2019 was £2,500. Peter purchased the television set from Banff Ltd on 6 April 2020 for £750 when its market value was £1,000.

Peter also receives a round sum allowance of £10,000 per annum. He spends £1,300 of it on business travel and £2,000 on client entertaining.

Peter was seconded to Narnia for four months under a separate contract of employment with Banff Ltd's subsidiary company, Aslan Inc. The secondment ran from 1 November 2020 to 28 February 2021.

Peter was paid a salary of £25,000 for this secondment. He was also reimbursed for the air fares relating to his travel abroad. The air fare from England to Narnia cost £1,750. The air fare for his return journey back to London cost £1,450.

During the course of his stay, Peter's hotel bills were £18,200, which included the cost of his meals. The incidental expenses amounted to £2,050. These included the cost of magazines, newspapers and telephone calls. In January 2021 Peter's wife visited him in Narnia. The cost of her return airfare was £1,500 and her accommodation was £500. All of these costs were borne by Aslan Inc.

During his time on secondment Peter was not paid from Banff Ltd.

Peter is domiciled and resident in the UK.

An employee from Aslan Inc is going to be seconded to the UK to work for Banff Ltd for a period of 3 months in 2021/22. The employee will not be resident in the UK for 2021/22.

Requirement:

- 1) **Compute Peter's net earnings for UK tax purposes from the Narnia contract. You should include a brief explanation of the treatment of the travel and accommodation costs.** (6)
 - 2) **Compute Peter's taxable employment income for 2020/21.** (5)
 - 3) **Briefly explain how the employment income of the employee from Aslan Inc will be taxable in the UK in 2021/22.** (2)
- Total (13)

3. Prior to a meeting with Start-Up Ltd, you receive the following email from Elsie, the company's managing director:

"As you are aware, we are currently looking at establishing a tax advantaged share scheme for our employees. I know we have had a brief conversation around the different types of schemes, but I hope you will be able to clarify the following points for me in our meeting.

With the Enterprise Management Incentives Scheme, can you briefly explain what HMRC requires us to do to ensure that we obtain the relevant tax advantages? I would be grateful if you could also set out the tax treatment of these options at both grant and exercise.

I find the different types of ways employees can obtain shares under a Share Incentive Plan rather confusing – please could you explain these to me at our meeting?

Finally, as Start-Up Ltd's shares are owned by my immediate family, in the future we may want to allot shares to other family members. Can you set out the procedure for allotting shares in a private company?"

Requirement:

Draft notes in response to Elsie's queries in preparation for your meeting. Marks will be awarded as follows:

- | | | |
|----|---|-------------|
| 1) | Enterprise Management Incentives queries. | (5) |
| 2) | Share Incentive Plan queries. | (4) |
| 3) | Procedure for the allotment and issue of shares in a private company | (4) |
| | Total | (13) |

4. In your capacity as a trainee tax adviser you have been asked to review the records of a new client, Geezer Ltd.

Geezer Ltd is a contractor and subcontractor under the Construction Industry Scheme and currently holds gross payment status. Owing to a backlog of paperwork, the contractor return covering payments made in the period 6 October 2020 to 5 November 2020 is unlikely to be submitted until June 2021 and is expected to report subcontractor deductions of £7,000.

Your review also shows a number of other tax returns and payments have been made late. In addition, you note a small number of unusual transactions which do not appear to have been made in the normal course of business.

Requirement:

- 1) **Explain the term ‘gross payment status’ and outline the tests carried out by HM Revenue & Customs before granting this status to a subcontractor.** (5)
 - 2) **Briefly explain what effect the late returns and payments could have on Geezer Ltd’s payment status.** (1)
 - 3) **Calculate the penalties due in respect of the late contractor return for the period ended 5 November 2020.** (3)
 - 4) **Define the term ‘money laundering’.** (1)
 - 5) **Explain a tax practitioner’s responsibility regarding money laundering under the Proceeds of Crime Act 2002.** (4)
- Total (14)

5. 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.

“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.

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 2018 on 15 August 2020. 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 2018 was paid on 1 January 2020 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. Ignore VAT.** (3)
 - 4) **State by when the corporation tax return for the year ended 31 December 2018 should have been filed and the due date for payment of the tax.** (1)
 - 5) **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 (14)

6. Neville is employed as a computer consultant by Wizards Ltd, in which he owns 100% of the shares. Neville is the only employee. During 2020/21, he was engaged by Cauldron Ltd under a contract between Wizards Ltd and Cauldron Ltd. The contract had a value of £85,000.

During 2020/21, 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) **Calculate Neville's deemed employment income and his employer's National Insurance Contributions for 2020/21.** (5)
- 2) **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)
- 3) **State two terms for the employer and two terms for the employee which will be implied by common law into a contract of employment.** (4)

Total (15)

7. You work in a firm of tax advisers and have been asked to deal with two potential new clients who have recently approached your firm for advice. They have previously used another firm of tax advisers but, because they have concerns over the quality of the advice they have been given, they are looking to engage your firm.

Mike and Molly Makin have been married for a number of years and each runs their own separate business. Both businesses are VAT registered.

Mike is a management consultant and his business is partially exempt for VAT purposes. He undertakes taxable consultancy work for private companies and VAT exempt education work for a number of charities. All of Mike's work is done in the UK. Mike uses the standard method to recover input VAT.

Molly runs her own mail order catalogue business making both standard rated and zero rated supplies. Her range of stock includes cooking utensils and crockery, but she also supplies food and baking ingredients to her customers. Molly's business deals with private individuals, all of whom are in the UK.

In order to expand her business, Molly has recently engaged the services of a firm specialising in search engine optimisation. The firm is based in the USA (not an EU country) so Molly has assumed that there will be no VAT consequences.

The results for each business for the quarter ended 31 March 2021 are as follows:

<u>Mike</u>	£
Income from private companies (VAT inclusive)	144,000
Income from charities	30,000

Expenses, all of which are standard rated:

Purchase of materials and equipment (VAT inclusive, used in both standard and exempt supplies)	36,000
Purchase of materials for wholly standard rated supplies (VAT inclusive)	10,500
Purchase of materials relating to exempt supplies (VAT inclusive)	2,700
Customer entertaining (VAT inclusive)	6,000

<u>Molly</u>	£
Income from supply of standard rated items (VAT inclusive)	114,000
Income from zero rated items	13,000

Expenses:

Purchase of standard rated items (VAT inclusive)	42,000
Purchase of zero rated items	10,000
Reduced rate supply – gas and electricity (VAT inclusive)	1,050
Purchase of new office equipment (VAT inclusive)	12,000
Staff entertaining (VAT inclusive)	1,440

Other information

Mike and Molly are keen to relocate to New Zealand in two years' time. They have seen a property which they are interested in purchasing. They have engaged the services of a VAT registered surveyor based in London who is due to fly out to New Zealand soon to value the property. New Zealand is not a member of the EU.

Requirement:

- 1) Calculate the input VAT recoverable by Mike for the quarter ended 31 March 2021. (6)
 - 2) Calculate the amount of VAT payable to HM Revenue & Customs by Molly for the quarter ended 31 March 2021. (3)
 - 3) Explain how the place of supply of the USA supplier's service is determined for VAT purposes and how VAT should be accounted for on this purchase. (4)
 - 4) State, with reasons, the place of supply of the surveyor's service. (1)
 - 5) Explain the professional enquiry required when taking on a new client. (3)
 - 6) State three conditions which must be met for a client to establish negligence against a former tax practitioner. (3)
- Total (20)

8. Assume that today's date is 1 November 2020.

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 2020. 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 2021 it will be in the region of £85,000.

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 UK based, but she has recently negotiated a contract with a large business based outside of the EU to supply them with printer cartridges every month, starting from 1 March 2021. Some of Holly's supplies will be imported into the UK from outside the EU for onward sale to UK 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 2020/21 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) Explain how the import of goods from outside the EU and the export of goods to the overseas customer will be treated for VAT purposes. | (2) |
| Total | (19) |

9. You are a tax adviser working for Chandler Associates and receive the following letter from a client:

Diana Chalmers
3 The Copse
Cattersall
Essex
E13 4HR

Chandler Associates
Broadway House
Michigan Square
London
EA13 4NB

2 May 2021

Dear Sirs,

As you know I have been trading as a beauty therapist for a number of years. Now that my children are older, I have decided to devote more time to the business.

I am thinking about asking a fellow beauty therapist to join me and form a partnership. I haven't thought about how we will split the profits yet, but will there be any additional compliance obligations for me to worry about?

If a partnership is formed, I anticipate that profits will increase significantly. A friend of mine explained to me that I need to be VAT registered once my turnover reaches a certain level and that I will need to file VAT returns, which I understand. However, she mentioned taxable and exempt supplies and I was not quite clear on the relevance of these. I don't want to make any mistakes in respect of VAT returns.

I am considering buying a car for me to use whilst conducting my business, but I will also use it privately. The cost of the car and all fuel charges will be met by the business. I believe there are special VAT rules in relation to cars and that a 'flat rate basis' can be used in respect of fuel, but I am unsure how these relate to me.

In addition, someone mentioned to me that the flat rate scheme may be beneficial.

I would appreciate some information on the points raised above.

Yours faithfully

Diana Chalmers

Requirement:

Prepare a letter to send to Diana in which you should:

- 1) Explain the self-assessment requirements if a partnership is formed. (5)
 - 2) Explain the difference in treatment for VAT purposes between taxable and exempt supplies and whether input tax is recoverable on each type of supply. (You are not required to discuss partial exemption.) (2)
 - 3) Explain the consequences of filing an inaccurate VAT return. (You should assume that Diana would not deliberately file inaccurate figures.) (3)
 - 4) Briefly describe how the cost of the car and the fuel charges will be treated for VAT purposes and whether any amounts will be recoverable. (You are not required to quote fuel flat rate figures.) (4)
 - 5) Briefly describe the advantages of the flat rate scheme and the conditions for eligibility. (You are not required to discuss the operation of the scheme.) (4)
- Total (18)

10. Scott has been an employee of The Grapevine Ltd, an unlisted company, for the past 10 years. Scott has a salary of £70,000 per annum and in 2020/21 he was provided with the following:
- 1) A company car registered in September 2019 with a list price of £15,000, which was purchased for £12,000. The car has a diesel engine and CO₂ 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.** (2)
- 3) **Briefly explain the assessment that should be carried out in respect of the childcare vouchers provided to Helen.** (2)
- 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)
- 5) **Describe the meaning of each of the following:**
 - a) **Issued share capital**
 - b) **Paid up share capital**
 - c) **Called up share capital** (3)

Total (20)

ANSWERS TO LONG QUESTIONS

1. VINO LTD

1)

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)

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 NIC at the rate of 13.8%. [½]

The provision of the chocolates is a trivial benefit (as the cost does not exceed £50) [½] and is therefore an exempt benefit. No tax or NIC is 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 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 NIC at the rate of 13.8% on the gross benefit. [½]

Max 4

[Credit will be given for any other valid points.

Question must address both the tax and NIC consequences to be granted full marks.]

3) Miranda

Miranda receives a contractual payment in lieu of notice of £12,000 (72,000/12 x 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 termination payment is made 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 (i.e. 6,000/1 x 2), so the PENP is reduced to nil.

Max 4

4)

The amounts subject to tax and NICs (both Class 1 and Class 1A NICs) must be reported to HMRC on a Full Payment Submission [$\frac{1}{2}$] at or before the time of payment. [$\frac{1}{2}$]

Both the Class 1 and Class 1A NICs must be paid via the PAYE system [$\frac{1}{2}$] ie 17 days after the end of the tax month where payment is made electronically (14 days otherwise). [$\frac{1}{2}$]

Total 2

Total for question 11

2. PETER PEVENSIE

1)

The earnings from the Narnia contract are:	£
Salary	25,000
Wife's accommodation	500
Incidental expenses (over £10 a night)	<u>2,050</u>
	<u>27,550</u>

The payment or reimbursement of Peter's travel costs including accommodation is exempt income as there is a payment or reimbursement of an allowable business expense.

The reimbursement or payment of the costs of travel for a spouse for up to two return journeys per tax year is exempt where the employee's period of absence is at least 60 continuous days. The cost of accommodation however will not qualify for this relief and is taxable.

2)

	£	£
Earnings from the Narnia contract		27,550
Salary (8/12 x £60,000)		40,000
Mobile phone – exempt		-
TV set – benefit assessable is greater of:		
(a) MV at acquisition by Peter (£1,000)		
Or		
(b) Original MV	2,500	
Less: Already assessed (£2,500 x 20%)	<u>(500)</u>	
i.e. £2,000		
Assessable amount	2,000	
Less: Price paid	<u>(750)</u>	
Benefit assessable		1,250
Round sum allowance	10,000	
Less: Business travel	<u>(1,300)</u>	
Assessable		<u>8,700</u>
Employment income		<u>77,500</u>

3)

As the employee is not resident in the UK, the earnings in respect of duties performed outside the UK are not subject to tax in the UK.

Earnings in relation to duties carried out in the UK will be taxable on the receipts basis.

Total for question 13

3. START-UP LTDMEETING NOTES1) EMI scheme:

Obtaining tax advantages: The EMI scheme must be registered with HMRC before an option can be notified to HMRC. The Company enters into a share option agreement with each individual employee and notifies the details to HMRC within 92 days. HMRC then has 12 months to check whether the EMI conditions have been met.

Tax at grant and exercise: There is no tax charge on grant or exercise, providing the options have not been granted at a discount.

If the options have been granted at a discount, there is an income tax charge at exercise calculated on the difference between the price paid by the employee and the market value of the shares. The market value is the lower of MV at date of grant or exercise.

2) SIP:

- Free shares: An employer can give up to £3,600 worth of shares a year to an employee and can make the award of some or all of the shares dependent on pre-set performance targets
- Partnership shares: An employee can buy shares out of pre-tax remuneration up to a value of the lower of £1,800 and 10% of salary each year
- Matching shares: An employer can match the partnership shares bought by the employee by giving up to two free shares for every partnership share purchased
- Dividend shares: An employee can use his dividends from the plan shares each year to reinvest in further shares in the plan.

3) Procedure for allotment and issue of shares – private company

- Persons who wish to subscribe for the shares of a company make an offer to the company to that effect.
- If the company accepts that offer, the contract becomes binding and the company is under a duty to issue the shares.
- The company's acceptance of the offer amounts to the "allotment" of the shares to the shareholder concerned but at that stage the shares cannot be regarded as having been issued.
- A further step is required – namely the completion of the contract – and that occurs only when the shareholder's name is entered into the company's register of members.

Total for question 13

4. GEEZER LTD

1)

If a subcontractor holds gross payment status it means that they can receive payments from contractors gross, without deduction. [½]

There are three tests which must be satisfied before HMRC will grant gross payment status:

- a) Business test: [½] the business must be carrying on construction work, be substantially operating with a bank account, and carrying on business in the UK [1]
- b) Turnover test: [½] the business must meet the prescribed level of construction work turnover, usually £30,000 per 'relevant person' (e.g. per director) (credit given for other tests mentioned in lieu of this test) [1]
- c) Compliance test: [½] throughout the 12 months prior to the application the subcontractor must have complied with all tax obligations including ensuring all returns and payments are made on time. [1]

2)

HMRC conduct an annual scheduled review of all gross paid subcontractors [½] to ensure that all compliance obligations have been met. [½] HMRC could therefore withdraw Geezer Ltd's gross payment status due to the late returns and payments. [½] This would mean that all future payments made to Geezer Ltd would be subject to deduction at 20%. [½]

Max 1

3)

The due date for the return was 19 November. It will be more than six months late.

[½]

	£	
6 months late: 7,000 x 5% = 350	350	[1]
350 is higher than the 300 minimum		[½]
Plus penalty for 2 months [½] late	200	[½]
Plus penalty for being 1 month [½] late	<u>100</u>	[½]
	<u>650</u>	

Max 3

4)

Money laundering is the process by which proceeds of crime are converted into assets which appear to have a legitimate origin [1] and includes all forms of using or possessing criminal property (as well as facilitating the use or possession) regardless of how it was obtained. [1]

Max 1

5)

- A tax practitioner must make a report to the National Crime Agency (NCA) [½] usually through their firm's Money Laundering Reporting Officer [½] if they have knowledge or reasonable grounds to suspect that their client is engaged in money laundering [½] and the knowledge came to them in the course of a regulated activity, such as the provision of tax advice. [½]
- This should be made as soon as practicable after the information comes to them. [½]
- Failure to disclose is a criminal offence [½] unless the practitioner has a reasonable excuse, [½] the information is governed by professional privilege, [½] or they are an employee who has not been given money laundering training. [½]

Max 4

Total for question 14

5. BUILD LTD

1) Payments to subcontractors

- Before paying a subcontractor for the first time, a contractor must verify the subcontractor with HMRC.
- HMRC will inform the contractor of the rate, if any, of deduction that should be made from the payment.
- If a subcontractor is not registered with HMRC, a deduction must be made at the higher rate (30%) from the payment.
- Subcontractors registered with HMRC can either be paid gross (no deduction required) or under the standard rate 20% deduction.

2) Payment statements

- Where a deduction has been taken from a payment, a payment statement must be provided to the subcontractor.
- At least one payment statement must be issued each tax month.
- The statement must be issued within 14 days of the end of the month to which it relates, i.e. by the 19th of each month.
- 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.

3)

<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	3,500
Labour £10,000	The whole amount is subject to deduction	10,000
Scaffolding hire £2,500	The whole amount is subject to deduction, as there is no direct cost to the subcontractor	2,500
Travel expenses £450	Whole amount is subject to deduction	<u>450</u>
Total		<u>16,450</u>

4) Due Dates

- The return for the year ended 31 December 2018 should have been filed by 31 December 2019.
- The tax due should have been paid by 1 October 2019.

5) 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 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.

Total for question 14

6. NEVILLE

1)			
	£		£
Income from relevant engagements			85,000
Less: 5% allowable deduction			<u>(4,250)</u> [½]
			80,750
Less:			
Expenses			(2,500) [½]
Professional subscriptions			(3,200) [½]
Salary	32,000	[½]	
Employer's NIC (W)	<u>3,203</u>	[1]	<u>(35,203)</u>
			39,847
Deemed employment income			
39,847 x 100/113.8 [1]			<u>(35,015)</u> [½]
Employer's NIC			<u>4,832</u> [½]

Working

Class 1 Secondary NIC (32,000 – 8,788) x 13.8% 3,203

2)

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 then 1 further mark for explaining the factor up to a maximum of 6.]

Tutorial Note:

Credit would be given for all relevant factors.

3)

Employee

Any two from the following:

- A general duty of faithful service
- A duty of to obey the employer's lawful and reasonable instructions
- A duty to perform work with care, skill and reasonable competence
- A duty to account for money and property received during the course of employment
- A duty of personal service
- A duty not to use for personal benefit, or disclose to others, the employer's trade secrets or confidential information.

[1 each – Max 2]

Employer

Any two from the following:

- To indemnify the employee against expenses and losses incurred during the course of employment
- To pay reasonable remuneration
- To provide work (in certain circumstances)
- To take care of an employee's health and safety
- To uphold the relationship of trust and confidence.

[1 each – Max 2]

Total for question 15

7. MIKE AND MOLLY

1)

The simplified tests do not apply as total input tax less that directly attributable to taxable supplies exceeds £625 per month.

Mike input VAT recovery:

$$\text{Recovery \%} = \frac{\text{Taxable turnover excluding VAT}}{\text{Total turnover excluding VAT}} \times 100\%$$

$$= 120,000 / (120,000 + 30,000) = 80\% \quad [1]$$

Expenses

	£	
Partially exempt (36,000 x 1/6 x 0.8)	4,800	[½]
Standard rated (10,500 x 1/6)	1,750	[½]
Exempt – not recoverable	-	[½]
Customer entertaining – blocked	-	[½]
Total	<u>6,550</u>	

$$\text{Exempt input tax} = (2,700 \times 1/6) \text{ £450} + (\text{£}36,000 \times 1/6 \times 0.2) \text{ £1,200} = \text{£}1,650 \quad [1]$$

As exempt input tax does not exceed £625 per month and is less than 50% of total input tax, Mike's exempt input tax is de minimis [1]

Mike is entitled to full input tax recovery in this quarter, i.e. £6,550 + £1,650 = £8,200 [1]

2)

Molly – VAT payable

	£	
Output VAT (114,000 x 1/6)	19,000	[½]
Less: Input VAT		
Standard rated purchases (42,000 x 1/6)	(7,000)	[½]
Gas and electricity (1,050 / 1.05 = £1,000 therefore VAT is £50)	(50)	[½]
Purchase of equipment (12,000 x 1/6)	(2,000)	[½]
Staff entertaining (1,440 x 1/6)	(240)	[½]
VAT payable	<u>9,710</u>	[½]

3)

- The basic rule is that business to business supplies of services are treated as supplied where the customer belongs. [1]
- The place of supply of the USA supplier's service is therefore the UK. [1]
- Molly must self account for UK VAT under the reverse charge procedure. [1]
- Molly must charge herself output tax on the services. As her business is fully taxable she can recover this as input tax, so there will be no net payment to HMRC. [1]

4)

The place of supply of the surveyor's service is New Zealand. [½] They are supplying a service related to land and the place of supply of such services is where the land is situated. [½]

5)

Ordinarily, a member should communicate with the previous adviser before accepting an appointment. [½]

The member must have the prospective client's permission to do so. [½]

Once permission is received, the member should ask the previous adviser in writing [½] whether the adviser is aware of any professional reason why they should not accept the appointment. [½]

It will usually be convenient to request at the same time relevant handover information. [½]

If the prospective adviser does not receive a positive response to their professional enquiry, the prospective adviser should consider the facts and circumstances and other available evidence carefully before deciding whether to accept the appointment. [½]

6)

To establish negligence, the client must prove that:

- The practitioner owed a duty of care [1]
- There was a breach of the duty of care [1]
- The client suffered loss as a result of the breach. [1]

Total for question 20

8. HOLLY

1)

Holly must notify HMRC within 6 months of the end of the tax year in which she becomes chargeable. [1] As she will start to trade in 2020/21, she must notify HMRC by 5 October 2021. [1]

2)

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 3 months following the date of issue of the return/notice to file if later than these deadlines. [1]

The tax liability for 2020/21 will be due for payment by 31 January 2022. [1]

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

3)

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 5th anniversary of 31 January following the end of the tax year. [1]

4)

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 £85,000, [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 at 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 2021. [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)

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 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 for VAT return periods starting on or after 1 April 2021.

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

Total 3

7)

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 (i.e. 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)

When goods are imported into the UK from outside the EU then VAT has to be paid at the time of importation. [$\frac{1}{2}$] This is then reclaimed as input VAT on the return for the period. [$\frac{1}{2}$]

When a UK VAT registered business supplies goods to an overseas (i.e. outside the EU) business customer, then the supply is zero rated for VAT, [$\frac{1}{2}$] provided the UK trader obtains the necessary evidence that the goods have been exported. [$\frac{1}{2}$]

Total 2

Total for question 19

9. DIANA CHALMERS

Chandler Associates
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EA13 4NB
5 May 2021

Diana Chalmers
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Dear Ms Chalmers

Thank you for your letter dated 2 May 2021. I will deal with each of your queries in turn.

Partnership Self-Assessment

If a partnership is formed, it must be registered immediately with HMRC by the nominated partner.

A partnership tax return must be filed by the nominated partner by 31 January following the end of the tax year if filed online (31 October following the end of the tax year if a paper return is filed).

The partnership return will contain details of the partnership profits as well as showing each partners' allocated share of the profits on the partnership statement.

There is no income tax liability for the partnership as a whole.

Each partner must file their own self-assessment tax return and pay their own tax liability, in the same way as for a sole trader.

Records must be kept by the partnership for at least 5 years and 10 months following the end of the tax year to which they relate.

Taxable and Exempt Supplies

Taxable supplies are subject to VAT at either 0%, 5% or 20%. Input tax incurred on costs attributable to taxable supplies is fully recoverable.

Exempt supplies are not subject to VAT and input tax incurred on associated costs cannot be reclaimed.

Penalties for Incorrect Returns

The penalty rate for an inaccurate VAT return depends on why the error was made. The more serious the reason, the greater the penalty. The penalty is calculated as a percentage of the tax unpaid, understated, overclaimed or under-assessed, as a result of the errors, as follows:

There will be no penalty if a taxpayer simply makes a mistake.

Penalties may be due if the error was due to a failure to take reasonable care.

Penalties for carelessness are dependent upon whether they are disclosed to HMRC in a prompted or unprompted manner.

In the case of an unprompted disclosure the penalty will be 0 – 30% of the tax whereas in the case of a prompted disclosure the penalty will be 15 – 30% of the tax.

Where a penalty sits in these ranges depends on the quality of the disclosure made.

Car and fuel

The input tax incurred on the purchase of the car will be blocked (i.e. it is not recoverable).

If the business pays for the fuel then there are three potential treatments. You can:

- Claim all the input tax on all fuel purchased and apply a flat rate charge to account for the private element
- Claim no input tax on fuel at all
- Keep mileage records split between business and private journeys to enable an accurate apportionment of input tax.

Flat rate scheme

The flat rate scheme removes the requirement to account precisely for input tax and the need to consider the liability of supplies when calculating output tax.

A business may join the scheme if it expects its taxable turnover, excluding VAT, in the next 12 months to be not more than £150,000. It must leave the scheme if its VAT inclusive total income exceeds £230,000 in the previous 12 months, unless HM Revenue & Customs are satisfied that VAT inclusive turnover in the next 12 months will not exceed £191,500.

I hope this answers your queries. Please let me know if I can be of any further assistance.

Yours faithfully

Arthur Chandler

Total for question 18

10. SCOTT

1)

Benefit	Value of benefit £	Class 1A NIC @ 13.8% £	Class 1 NIC employee @ 2% £	Class 1 NIC employer @13.8% £
Car (W1)	2,060	284 [½]		
Fuel (W2)	4,655	642 [½]		
Mobile phone	Exempt [½]	Exempt	Exempt	
Season ticket	Exempt [½]	Exempt	Exempt	
Gift vouchers	500 [½]		10 [½]	69 [½]
Gym membership	360 [½]	50 [½]		
Shares (W3)	5,000 [½]	N/A	N/A	N/A
Pension	Exempt [½]	Exempt	Exempt	
Total NIC		976	10	69

WorkingsW1) Car

List price (disregard cost to employer)	15,000	[½]
Less: Contribution	(1,000)	[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	
	(600)	[½]
	<u>2,060</u>	

W2) Fuel

24,500 x 19% = £4,655 [½]

W3) Shares

The shares are not readily convertible assets and 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 NIC is calculated at 2% as Scott's monthly salary exceeds the upper earnings limit.

Total 9

2)

The employer must provide details of the Class 1A NIC on form P11D(b) [½] which must be sent to HMRC by 6 July 2021. [½] The supporting information concerning the benefits must be reported on Scott's form P11D, a copy of which must be provided to HMRC by the same date. [½]

Class 1A NIC is payable by 22 July 2021 if paying electronically (19th otherwise). [½]

Class 1 NIC is 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 NIC deducted is reported to HMRC on a Full Payment Submission at or before the time of payment. [½]

Max 2

3)

As Helen joined the childcare voucher scheme after 6 April 2011 [½] her 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 2020/21 [½] which will include her salary and any benefits to which she is contractually entitled. [½]

Total 2Tutorial 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)

	£	
Salary	55,000	[½]
Less: Pension contributions at 5%	<u>(2,750)</u>	[½]
	52,250	
Add: Contractual benefits:		
Gym membership	360	[½]
Less: Personal allowance	<u>(12,500)</u>	[½]
Earnings assessment	<u>40,110</u>	

As her earnings exceed the basic rate limit of £37,500, [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 NIC via the PAYE system. [½]

Total 4

5)

Issued share capital is the nominal value of the shares which have actually been issued to the shareholders in the company. [1]

Paid up share capital is the amount of the nominal value of each share issued which shareholders have paid. [1]

Called up share capital is the amount which the company has called for shareholders to pay on the shares issued. [1]

Total 3

Total for question 20