Tolley® Exam Training

ATT PAPER 3

BUSINESS COMPLIANCE

PRE REVISION QUESTION BANK

FA 2019

May and November 2020 Sittings

PQ763
ATT

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 2019).

Format of the exam

All the ATT exams are **3¼ 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.

Part I is printed as a **question and answer booklet** with each short form question (SFQ) at the top on the left hand side of the page – the rest of that page and the whole of the next page will be lined paper for you to write your answer to that SFQ. This booklet will be **green.**

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.

The Part II questions will be printed separately and there will be a Part II answer booklet which will be **orange** with lined paper for you to write your answers in.

Pre exam reading time

The initial 15 minutes of the exam are pre examination reading time (PERT). During this time you are permitted to **read and annotate the questions for Part II only** and read the legislation**,** but you **may not write in the orange answer booklet for Part II** and you **may not read/annotate the green question and answer booklet for Part I.**

Calculators may be used during this 15 minute period. There will be an announcement at the end of the 15 minutes reading time after which you may start writing in the answer booklets.

During the 3 hour writing period we recommend you initially **allocate 1.7 minutes per mark** to allow time for a final review stage at the end of each question.

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 **write the answers out** yourself.

Writing "proper" answers also gives you a good idea of how long an exam standard answer will take you to write.

Reviewing your answers

It is essential to read through your answer when you have finished writing 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? You want those red ticks to be flowing freely onto your page!

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

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. We have also included some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions is 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

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LONG QUESTIONS

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INCOME TAX

	2019/20
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 – 2,049	19
2,050 – 12,444	20
12,445 – 30,930	21
30,931 – 150,000	41
150,000 +	46

Reliefs	£
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	8,915
– Maximum income before abatement of relief - £1 for £2	29,600
– Minimum allowance	3,450
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,450
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 Welsh income tax on non-savings income from 6 April 2019. For 2019/20, 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.

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ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	4,368

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note)	**Lifetime allowance**	**Minimum pension age**
	£	£	
2019/20	40,000	1,055,000	55

Note The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. It cannot be reduced below £10,000.

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 – 2019/20

Emissions	**Car benefit %** (Note)	
0 – 50g/km	16%	
51 – 75g/km	19%	
76 – 94g/km	22%	
95g/km or more	23%	+ 1% for every additional whole 5g/km above 95g/km
165g/km or more	37%	

Fuel benefit base figure £24,100

Note 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard.

Taxable benefits for vans – 2019/20	**£**
Van benefit – No CO_2 emissions	2,058
Van benefit – CO_2 emissions > 0g/km	3,430
Fuel benefit	655

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.

2019/20 Official rate of interest 2.5%

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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 £1,577 per month.

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

Employee earnings threshold at which repayment begins is £2,143 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 SICK PAY

		Weekly rate
Year to 5 April 2020		**£**
Average weekly gross earnings	£118.00 or more	94.25

STATUTORY MATERNITY PAY

Period	First 6 weeks	Remaining weeks
From 6 April 2019	90% average weekly earnings	Lower of 90% of weekly earnings & £148.68

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2020	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2020

Rates	Weekly rate
First child	£20.70
Each subsequent child	£13.70

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

HARMONISED INTEREST REGIME – HMRC INTEREST RATES

Late payment	3.25%
Underpaid corporation tax instalments	1.75%
Repayment	0.5%

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits		**2019/20**	
	Annual	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,136	£512	£118
Primary threshold (PT)	£8,632	£719	£166
Secondary threshold (ST)	£8,632	£719	£166
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

	2019/20
Employment allowance	
Per year, per employer	£3,000
Class 1 primary contribution rates	
Earnings between PT and UEL (Note 3)	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 1 & 2)	13.8%
Other contribution limits and rates	
Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.00 pw
Small profits threshold	£6,365 pa
Class 3 contributions	£15.00 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£8,632
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%.

(3) The married women's reduced rate payable with a valid reduced rate election is 5.85%

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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 (Notes 3 & 4)	6%
WDA on structures and buildings allowance (SBA) (Note 5)	2%

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 prior to 31 December 2018 and from 1 January 2021).

(2) The main pool rate applies to cars with CO_2 emissions of not more than 110 g/km.

(3) The special pool rate applies to cars with CO_2 emissions greater than 110 g/km.

(4) The special pool rate was 8% prior to 6 April 2019 (1 April 2019 for companies).

(5) The SBA rate of 2% applies to expenditure from 29 October 2018 on new qualifying non-residential structures and buildings on a straight-line basis.

First year allowances available to all businesses

1) New energy-saving plant and machinery and water efficient plant and machinery (until April 2020).
2) Capital expenditure incurred by a person on research and development.
3) New zero-emission goods vehicles (until April 2021).
4) New cars registered before 31 March 2021 if the car either emits not more than 50 g/km of CO_2 or it is electrically propelled.
5) Electric vehicle charging points expenditure incurred from 23 November 2016 until April 2023.

CORPORATION TAX

Financial year	**2019**	**2018**
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies - RDEC	12%

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

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VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits	**From 1.4.19**
Annual registration limit	£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

INHERITANCE TAX

Death rate	40% (Note)	**Lifetime rate**	20%

Note A lower rate of IHT of 36% applies where 10% of 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

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CAPITAL GAINS TAX

	2019/20
Annual exempt amount	£12,000

CGT rates for individuals (Notes 1 & 2)

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

CGT Rate for PRs

All gains (Note 5)	20%

Entrepreneurs' 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 entrepreneurs' relief/investors' relief first.
(3) The remaining basic rate band is calculated as £37,500 (2019/20) less taxable income less any gains on which entrepreneurs' 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

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

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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. KPW Plc provided an employee with a loan of £25,000 on 6 July 2017. The employee paid back £2,500 on both 6 July 2018 and 6 July 2019 but had to borrow a further £2,000 on 1 March 2020. The employee paid interest of £20 per month in respect of the loan.

   Calculate the amount to be shown on the employee's P11D for 2019/20 in respect of the loan. (3)

2. Sarah Penny has lived in a house (not job related accommodation) owned by her employer since 2016/17. The house has a gross rateable value of £4,500 and cost £200,000 in 2011. Her employer added an extension costing £50,000 in 2015. The house was worth £300,000 when Sarah moved in.

   Show the assessable benefit for 2019/20. (2)

3. Daisy has a tax code of 1250L and earns £6,500 per month. She is considering making a charitable donation of £150 per month via her employer's Payroll Giving Scheme.

   Calculate the net monthly cost of Daisy's proposed donation and briefly explain how relief for the donation would be given. (2)

4. Saffron received the following remuneration from Sloane Ltd in the tax month 6 October to 5 November 2019:

	£
Salary	750
Statutory Sick Pay	57
Service award in form of premium bonds	200
Medical insurance premium	35

   The following contributions were made to Saffron's occupational pension scheme:

	£
Contributions by Saffron	50
Contribution by Sloane Ltd	125

   Sloane Ltd has not registered with HMRC to payroll any non-cash benefits.

   Calculate the amount of income that will be subject to PAYE for the above tax month. (3)

5. Dylan was made redundant by Woods Ltd in 2019/20. Dylan worked his notice period. He then received an ex-gratia termination payment of £100,000 as well as statutory redundancy of £5,000. He was also allowed to keep his company car which had a current market value of £7,000.

   State the amount of the payment that Woods Ltd was required to operate PAYE and NIC on. (3)

6. Synton Plc offers its employees Enterprise Management Incentives. On 15 July 2019 the following events occur:

   Mr A, aged 40, is granted an option to purchase 10,000 shares in the company at a price of £3.50 per share. The current market value of the shares is £4.00 per share.

   Mr B, aged 50, exercises an option granted to him three years ago to purchase 15,000 shares at a price of £2 per share. At the date the option was granted the shares were valued at £2.25 per share.

   Explain the action that will need to be taken by Synton Plc as a result of these events. (4)

7. Crocus Ltd paid total Class 1 employer and employee NIC of £43,000 in respect of 2018/19. It also paid Class 1A NIC of £3,500. In the period 6 March 2020 to 5 April 2020 the company paid total SMP and SPP of £1,675.

   Explain how much Crocus Ltd will be able to recover from HM Revenue and Customs in respect of these payments and how the recovery will be made. (3)

8. During 2019/20 Gordon Sinclair and his family moved house in order that Gordon could take up a new job. His new employer paid the following expenses of relocation:

		£
-	Hotel and subsistence expenses for Gordon and his family on a weekend visit to the new area to look at houses	500
-	Legal and estate agents' fees in connection with the sale and purchase of his old and new home	4,500
-	Stamp Duty Land Tax on the purchase of the new house	7,000

   Calculate the amount assessable in respect of the relocation expenses. (2)

9. Jane, aged 32, is self-employed with trading income of £62,000.

   Calculate the national insurance contributions payable by Jane for 2019/19. (3)

10. Ruth commenced to trade on 1 June 2019. Her monthly turnover is expected to be as follows:

	£
Standard rated supplies	12,000
Exempt supplies	2,000
Zero-rated supplies	7,000
	21,000

   On the basis of the above estimates explain the latest date by which Ruth must notify her requirement to be registered for VAT and state the date from which she will be so registered. (3)

11. Paul, who has been registered for many years, is using the flat rate scheme for VAT with a 6% rate. During the quarter ended 31 March 2020 the following arose:

	£	
Standard rated supplies	10,000	(exclusive of VAT)
Exempt supplies	1,000	
Standard rated inputs	5,000	(exclusive of VAT)

You are required to calculate the VAT payable for the above quarter assuming that Paul is not a limited cost trader. (2)

12. A customer ordered a large consignment of widgets. The customer paid a deposit on 1 July and the goods were delivered on 15 July. The seller did not manage to raise an invoice for the balance until 30 September. The invoice was paid on 15 October.

Outline the tax points for the above transaction. (2)

13. Johnson Ltd is a retailer and accounts for VAT using the Direct Calculation Scheme 1. The following information applies for the quarter to 30 June 2019:

	£
Estimated selling price (ESP)	
Standard-rated purchases	82,100
Zero-rated purchases	25,300
Gross takings	99,500

Calculate the output tax due for the quarter ended 30 June 2019 and state when the Direct Calculation Scheme 1 is available to retailers. (2)

14. **Explain briefly the place of supply of the following supplies by UK registered traders:**

    1) Amaryllis, which runs a consultancy business, supplies UK staff to work on a management project for Galatea, a business which is based in Canada;

    2) Thyrsis, an accountant, who prepares a UK tax return for Olive, a retired individual living in the USA;

    3) Corydon, a chartered surveyor, carries out a survey and valuation on land in Russia for a client who lives in the UK.

(3)

15. The following information relates to Petra, a VAT registered trader, for the quarter to 30 June 2019.

All figures are exclusive of VAT.

	£
Sales (standard rated)	75,000
Car purchase	20,000
Overheads (standard rated)	15,000

VAT on other purchases amount to £4,000

The car was purchased on 1 April 2019 and has CO_2 emissions of 195g/km. Petrol for both private and business motoring was charged through the business. The VAT inclusive quarterly value of supply relevant for this car under the flat rate basis is £429.

Calculate the VAT payable for the quarter. (3)

TEST "1"
ANSWERS

Tutorial Note:

When this test was set the ATT did not publish marking guides with their model answers.

1. Loan outstanding at the beginning of the tax year (25,000 – 2,500) = 22,500

   Amount outstanding at the end of the tax year (22,500 – 2,500 + 2,000) = 22,000

	£
Average loan (22,500 + 22,000)/2 = 22,250 @ 2.5%	556
Less: Interest paid by employee (20 x 12)	(240)
Benefit	316

Tutorial Note:

Although the taxpayer has the option to elect for the strict method, which would give a lower benefit in this case, the employer will prepare the P11D using the average basis, which is what the question asked for.

2.

	£
Annual value	4,500
Add: (250,000 – 75,000) x 2.5%	4,375
Taxable benefit	8,875

3. Daisy is a higher rate taxpayer and so will save tax at 40% on £150 donation = £60.

   Total net cost of donation therefore £150 – £60 = £90.

   Daisy will obtain income tax relief for the donations via the PAYE system.

   The donation will be deducted from Daisy's taxable pay before PAYE is applied (but not for NIC purposes).

4.

	£
Salary	750
Statutory Sick Pay	57
Premium bonds (can be turned into cash by surrender)	200
	1,007
Less: Pension contribution	(50)
Income subject to PAYE	957

5.

	£
Total cash payment (100,000 + 5,000)	105,000
Less: Exemption	(30,000)
Amount subject to PAYE	75,000

No amount would have been subject to NIC in 2019/20 as the payment is not regarded as earnings from employment.

6. Action re Mr A's option grant

- Synton Plc will need to notify HMRC online within 92 days that the grant has taken place. The company will need to provide all the information necessary to confirm that the option qualifies under the EMI rules.

Action re Mr B's exercise

- As the option was granted at a discount income of £3,750 (15,000 x (2.25 – 2) is chargeable to income tax. As the shares are readily convertible assets, Synton Plc will need to operate PAYE on this amount and deduct both primary and secondary Class 1 NIC.

General

- Synton Plc will need to submit an annual return online by 6 July following the end of the tax year which will include all the information necessary to determine any tax charges.

7. Crocus Ltd is considered to be a small employer as the total amount of Class 1 NIC paid in respect of 2018/19 did not exceed £45,000 (Class 1A is not taken into account for this purpose).

As a result it will be able to recover 100% of the payments plus a supplement of 3%, i.e. 1,675 + (1,675 x 3%) = £1,725.

This amount will be recovered by deducting it from the amounts of PAYE/NIC/CIS/student loan/postgraduate loan deductions due to be paid to HMRC.

8. Amount assessable is the amount in excess of £8,000 limit, i.e.:

	£
Eligible expenses (500 + 4,500 + 7,000)	12,000
Less: Limit	(8,000)
Assessable	4,000

9.

	£
Class 2	
3.00 x 52	156
Class 4	
(50,000 – 8,632) = 41,368 at 9%	3,723
(62,000 – 50,000) = 12,000 at 2%	240
	3,963

10. To consider whether the threshold of £85,000 has been breached Ruth must include the standard and zero-rated supplies (£19,000 per month). The exempt supplies are not included as they are not taxable.

    Ruth does not breach the future test as in no one-month period is turnover expected to exceed £85,000. However, in five months’ time her taxable turnover will be £95,000 to date and therefore exceed the £85,000 threshold.

    Ruth must notify HMRC by 30 November 2019 and registration will be effective from 1 December 2019.

11.

	£
Standard rated supplies (VAT inclusive) (10,000 x 120%)	12,000
Exempt supplies	1,000
Total supplies (VAT inclusive)	13,000
Flat rate @ 6%	780

12. The first tax point is 1 July when payment of the deposit is received as this is in advance of the invoice date and the basic tax point.

    The second tax point (for the balance) is the date of delivery, i.e. 15 July. This basic tax point is not overridden as the invoice is not issued within 14 days.

13. (99,500 – 25,300) x 1/6 = £12,367

    Available to retailers with a turnover not exceeding £1million per year.

14.
    1) The consultancy services are supplied to a relevant business person and therefore are supplied where the customer belongs, i.e. in Canada.
    2) The supply is a supply of accountancy services to a person who is not a relevant business person. The supply is where the customer belongs and is therefore made in the USA.
    3) Land services are supplied where the land is, i.e.in Russia.

15.

Output VAT	£
On sales (75,000 x 20%)	15,000
Car fuel charge	
429 x 1/6	71
Less:	
Input VAT	
On taxable supplies	(4,000)
On Overheads (15,000 x 20%)	(3,000)
VAT payable	8,071

PAPER 3
SHORT FORM QUESTIONS
TEST “2” (40 MARKS)

1. Judy runs a dental practice and makes both standard rated and exempt supplies. In the quarter to 31 March 2020, total input tax suffered was £20,000. This was made up as follows:

	£
Attributable to taxable supplies	13,000
Attributable to exempt supplies	5,500
Relating to general overheads	1,500
	20,000

VAT exclusive turnover for the quarter was as follows:

	£
Standard rated	81,000
Zero rated	3,000
Exempt	25,000

Calculate the amount of input tax recoverable for the above quarter using the standard method. (4)

2. Fiona Gill is a UK VAT registered trader, who supplies cosmetics by mail order to the wholesale market. She runs her business from premises in London. She has recently made the following sales and purchases.

1) A supply of 1,000 lipsticks to a customer in the USA. The goods were shipped direct to the customer from a warehouse in Thailand.

2) A purchase of 20,000 bottles of nail varnish from China, from a company who is registered for VAT in that country.

Explain the UK VAT implications of the above transactions. (3)

3. A trader can claim a refund of output VAT on bad debts.

Briefly describe the conditions under which a claim can be made and explain how relief is calculated if a debt is partly written off. (4)

4. Malcolm started trading on 1 April 2019. Taxable supplies to 31 October 2019 were £60,000. On 1 November 2019 Malcolm entered into a new contract such that taxable supplies were £30,000 a month from that date.

State when Malcolm was due to notify HMRC of his liability to register for VAT, the date from which he should have been registered and the potential penalty if he is six months late in notifying HMRC. (4)

You should assume the failure is not deliberate.

5. Where an employee is unable to work due to sickness, their employer must make payments for time off sick. These payments must be at least the minimum Statutory Sick Pay amount.

   Briefly explain who is eligible to receive SSP and how it should be treated for Income Tax and National Insurance purposes by the employer. (4)

6. Noel has recently set up in business and has recruited five employees. Noel has deducted £3,700 of PAYE from his employees’ February 2020 salaries, but is unsure of when it should be paid to HM Revenue & Customs and the consequences of paying it late.

   Advise Noel of the due date for payment of this PAYE and the date from which any interest for late payment may be charged. (2)

7. David is employed on an annual salary of £23,400 and is paid monthly. In December 2019 he received a bonus of £2,000.

   Calculate David’s total student loan deductions for 2019/20, on the assumption he is in repayment Plan 1. (3)

8. In 2019/20, Lowe Ltd met the cost of private medical insurance for its employees. It also had a PAYE Settlement Agreement to meet the employees’ liability in respect of staff entertaining events.

   State the categories of National Insurance Contributions due in respect of these benefits and by what date they should be remitted to HM Revenue & Customs. (3)

9. In 2017/18, Frank underpaid tax of £1,000 which is to be collected through his 2019/20 tax code. Frank’s total income is £25,000 and his employer provides him with benefits in kind (not included in payroll) totalling £4,940.

   Calculate Frank’s 2019/20 tax code. (3)

10. Charlie is employed in the UK as an architect. From 1 January 2020, he was given a three month secondment under a separate contract with the company’s Canadian subsidiary. His salary for the secondment was £15,000.

    The cost of the hotel bills during the contract was £8,000, incidental expenses incurred amounted to £450 and the cost of airfares was £1,100. These were all met by the company.

    Charlie is domiciled and resident in the UK.

    Calculate Charlie’s earnings for UK Income Tax purposes from the Canadian contract, briefly explaining the treatment of the expenses. (3)

11. Scott contributes to his employer’s registered defined benefit pension scheme.

    1) Explain how the maximum annual tax relief for pension contributions is calculated. (3)

    2) Explain how tax relief will be granted on Scott’s pension contributions. (1)

12. Archman Ltd is preparing its accounts for the quarter to 31 March 2020. Sales invoices for the quarter were £100,000. Purchase invoices for the quarter were £55,200. Both these amounts are inclusive of VAT at 20%.

    Record these entries in the VAT control 'T' account and show the amount payable to HM Revenue & Customs for the above quarter. (3)

TEST “2”
ANSWERS

Tutorial Note:

When this test was set the ATT did not publish marking guides with their model answers.

1. The simplified partial exemption tests are not satisfied:

   Test 1 – total input tax ≤ £625pm (20,000/3 = 6,667)
   Test 2 – total input tax less directly attributable to taxable supplies ≤ £625pm ((5,500 + 1,500)/3 = 2,333)

   % of total taxable supplies:

   (81,000 + 3,000)/109,000 = 77.06

   Round up to next whole % = 78%

   Recoverable input tax:

	£
Input tax attributable to taxable supplies	13,000
Residual (1,500 x 78%)	1,170
	14,170

   Potentially not recoverable:

	£
Input tax attributed to exempt supplies	5,500
Balance of residual (1,500 – 1,170)	330
	*5,830
Total Recoverable input tax	14,170

   *The amount of exempt input tax will be recoverable if it is small (≤ 625 per month or £1,875 for the quarter). As the amount of £5,830 exceeds the de minimis limit it will not be recoverable.

2.
   1) Sale not subject to UK VAT. The goods are physically outside the UK at all points in the supply chain and therefore the place of supply is outside the UK and the sale is not subject to UK VAT.

   2) This is an import and will be liable to import VAT, which will be payable at the time of import by Fiona. Provided Fiona is a fully taxable business, she will be able to recover this as input tax. There are no obligations for the Chinese company to register for VAT in the UK.

3. A trader can claim a refund of VAT on a bad debt if:

- He has supplied goods or services and has accounted for and paid the output tax.
- The whole or part of the consideration has been written off in the trader's accounts as a bad debt.
- Six months have elapsed from the later of the date of supply and the date payment was due.
- The value of the supply must be not more than the normal selling price.
- The debt must not have been paid or sold on.

Where debts have been part paid, payments received from the customer must be allocated to the earliest debts first when calculating the bad debt relief claim.

4. Date due to notify HMRC:
30 December 2019 (taxable supplies by 30 November were £90,000)

Date from which should have been registered:
1 January 2020

Potential penalty:

- % of net tax due between date HMRC notified and date should have been registered
- Max 30% but can be reduced by disclosure
- Minimum 0% if unprompted
- Minimum 10% if prompted

5.

- SSP is a flat rate benefit payable to employees when there has been a period of incapacity for work of four or more consecutive days.
- Within the period of incapacity for work there must be qualifying days and SSP is not paid for the first three of such qualifying days.
- SSP is only payable to employees earning above the Lower Earnings Limit for NIC.
- It is paid to the employee in the same way and on the same day that they usually get their wages.
- SSP will form part of an employee’s gross wage and is taxable and subject to NICs. It must be reported on a Full Payment Submission on or before the date of payment.

Tutorial Note:

Credit would be given for all relevant comments, i.e.:

- *It is the average weekly earnings in the eight weeks prior to the illness that are taken into account when considering if earnings are above the lower earnings limit (£118pw).*
- *SSP is paid for a maximum of 28 weeks, therefore if an employee has already received 28 weeks of SSP for an illness linked to the current one, no further SSP will be due.*
- *The employee must give appropriate notification to the employer; if not, SSP can be withheld (where no procedure is in place this must be within seven days of the first qualifying day).*

6. The PAYE for February must be paid by 22 March 2020 where the payment is to be made electronically (otherwise by 19 March 2020).

Interest will be charged on late payments made during the tax year from the normal due date until the date of payment.

7.

			£
Threshold	1,577 per month		
11 months: Earnings 23,400/12 = 1,950			
Deduction (1,950 – 1,577) x 9%	33.57		
	Round down to £33 p/m	11 months x 33 =	363
1 month: Earnings 1,950 + 2,000 = 3,950			
Deduction (3,950 – 1,577) x 9%	213.57		
	Round down to £213 p/m	1 month x 213 =	<u>213</u>
	Total deductions		<u>576</u>

8. Class 1A NIC is due in respect of the medical insurance provided to the employees. It is payable by 22 July 2020 if paid electronically (otherwise by 19 July).

   Class 1B NIC is due in respect of the PAYE Settlement Agreement. It is payable by 22 October 2020 if paid electronically (otherwise by 19 October).

9.

Personal allowance	12,500
Underpaid tax (1,000 x 100/20)	(5,000)
Benefits	(4,940)
	2,560

Tax code 256L

10.

Earnings = Salary	15,000

The hotel and travel costs met by the company are allowable expenses (under s.341 and s.376 ITEPA 2003) and therefore are exempt income.

Incidental expenses are exempt as ≤ £10 per night.

11.

1) Tax relief is available for pension contributions up to the higher of:

   - 100% of relevant earnings (up to the available annual allowance)
   - £3,600

   Relevant earnings includes salary and benefits.

   The annual allowance for a year is increased by any unused annual allowance brought forward from the previous three tax years.

2) The gross amount of Scott's contribution will be given tax relief at source via the payroll.

12.

VAT Control Account

	£		£
Purchases (55,200 x 1/6)	9,200	Sales (100,000 x 1/6)	16,667
Balance c/f	7,467		
	16,667		16,667
		Balance b/f (payable to HMRC)	7,467

PAPER 3
SHORT FORM QUESTIONS
TEST “3” (40 MARKS)

1. Darren exercised 1,000 options in his employer’s Enterprise Management Incentives Scheme in March 2020. The market value at the time of exercise was £5.50 per share.

   He was granted the options in 2016 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 the Real Time Information.** (2)

3. Billy Bob is VAT registered and has the following results for the quarter ended 31 March 2018: sales of £240,000 (VAT inclusive), all on credit, and purchases of £96,000 (VAT inclusive), all for cash.

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

4. Belle is an architect and has registered under the VAT Flat Rate Scheme. Her VAT exclusive turnover for the quarter ended 31 December 2019 is £150,000 and she has made 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 2019, using both the flat rate and the normal method of calculation. (2)

5. On 1 May 2019, 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 2019. 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. (4)

6. Nita is VAT registered and has run her event planning business for many years. In the quarter ended 31 March 2020, 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 2020, and briefly explain whether VAT is recoverable on each cost. (4)

7. Cocktail Ltd provided the following benefits for its employees during 2019/20:

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 2019/20 and state by when they must be paid. (3)

8. **State the VAT liability of the following items:**

1) An education course provided by a University;
2) Electricity supplied for domestic, residential use;
3) Rent of a domestic property; and
4) A child's car seat.

(2)

9. A company provides the following expenses and benefits to its employees in 2019/20:

- Reimbursement of business expenses such as travel and subsistence.

- Gift voucher programme awarding £100 of storecard vouchers to employees for exceptional contributions to the business.

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

Explain the Income Tax and National Insurance Contributions treatment and reporting of these expenses and benefits. (3)

10. A group of companies under common control can apply for group VAT registration.

    State three consequences of group registration for VAT purposes. (3)

11. 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)

12. Emily is a director of Hunter Ltd and earns a gross salary of £15,000 per month.

    In May 2019, she received a bonus of £25,000 in addition to her usual monthly salary.

    Calculate the Class 1 National Insurance Contributions payable by Emily for the month of May 2019. (3)

13. 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 2020, 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 “3”
ANSWERS

1. The maximum value of shares over which an employee can hold options under the enterprise management incentives scheme is £250,000. *[½]*

   The maximum value of shares over which unexercised options can be held is £3 million. *[½]*

   Darren’s options have the following income tax consequences:

   No tax charge at grant. *[½]*

   As the options are granted at a discount *[½]*, tax is due on the lower of:

   - MV at grant (£4.25 x 1,000) = £4,250 *[½]* and
   - MV at exercise (£5.50 x 1,000) = £5,500 *[½]*

   Less amount paid for the options, i.e. the option price (£3.50 x 1,000) = £3,500 *[½]*

   Tax will be due on employment income of (4,250 – 3,500) = £750 *[½]*

   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 *[½]* which must be submitted electronically to HMRC *[½]*

   [½ mark for any other relevant points, to a maximum of 2 marks.]

   Total 2

3.

Sales	£	£	
Dr Debtors	240,000		*[½]*
Cr Sales		200,000	*[½]*
Cr VAT Control		40,000	*[½]*
Purchases			
Dr Purchases	80,000		*[½]*
Dr VAT Control	16,000		*[½]*
Cr Cash		96,000	*[½]*

Total 3

4. Under the flat rate scheme, VAT is payable on the VAT inclusive turnover figure.
150,000 x 1.2 = £180,000 *[½]*
180,000 x 14.5 % = £26,100 *[½]*

[Penalise ½ 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%)	(10,000)	
	20,000	*[1]*

Total 2

5.

	Amount	Tax	NIC	
	£	£	£	
Statutory redundancy	12,000			
Ex gratia	20,000			
	32,000			*[1]**
Threshold	(30,000)			*[½]*
Excess	2,000	2,000	-	*[1]**
Terminal bonus	10,000	10,000	10,000	*[½]**
Restrictive covenant	15,000	15,000	15,000	*[½]**
Retraining	Exempt	-	-	*[½ for omitting]*
Total		27,000	25,000	

*[*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	*[½]*
Car purchase – not recoverable as private use		*[½]*
Servicing – all recoverable as element of business use		
360 x 1/6	60	*[½]*
Staff party recoverable		*[½]*
3,000 x 1/6	500	*[½]*
Gift not recoverable as cost is more than £50*		*[½]*
Bad debt – recoverable**		
12,000 x 1/6	2,000	*[½]*
	38,560	
Less: Output tax		
Sales: 150,000 x 1/6	(25,000)	*[½]*
Recoverable	13,560	

Total 4

*[*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.]*

7. 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 x 12) + (175 x 20)) x 100/80 = £19,375 *[½]*

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

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

NIC on tax: 3,875 x 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 x 13.8% = £2,674]

The income tax and Class 1B NIC should be paid on or before 22 October 2020 if paying electronically (otherwise 19 October). *[½]*

Total 3

8.

University education is exempt. *[½]*
Electricity will be at the reduced rate of 5% *[½]*
Rent of a domestic property is exempt *[½]*
A child's car seat is charged at the reduced rate of 5% *[½]*

Total 2

9. Reimbursement of business expenses is exempt income *[½]* and does not need to be reported *[½].* The reimbursement of business expenses has no NIC consequences. *[½]*

The gift vouchers should be reported on form P11D for tax purposes *[½]*. Gift vouchers are subject to Class 1 NIC *[½]* and this should be paid via the payroll in the month the payment is made. *[½]*

Total 3

10. The group must appoint a representative member to account for the group's output and input tax. *[1]*

Any supply of goods or services by a member of the group to another member is disregarded for VAT purposes. *[1]*

Only one VAT return for the whole group is needed. *[1]*

All the members of the group remain jointly and severally liable for any VAT debts. *[1]*

Tutorial Note:

Credit would also be given for reference to the consequences of including a company which makes exempt supplies within the group.

Max 3

11. 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]*

Total 3

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

12. NICs payable in April 2019: (15,000 – 8,632) *[½]* x 12% = £764 *[½]*

May 2019: Total earnings to date are £55,000 *[½]*

Emily's NICs:

	£	
(50,000 – 8,632) x 12%	4,964	*[½]*
(55,000 – 50,000) x 2%	100	*[½]*
	5,064	
Less: NIC already paid	(764)	*[½]*
	4,300	

Total 3

13. As the shares are readily convertible assets, the income tax and NIC are collected via PAYE. *[½].*

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 *[½]***.** Although generally the maximum amount of tax that can be deducted cannot exceed 50% of a payment, *[½]* this limit is ignored for these purposes and so the amount of tax deducted can exceed 50% of his gross pay. *[½]*

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) *[½].* 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. *[½]*

If Mark has not paid the tax within this period, the additional tax becomes a taxable benefit *[½]* and should be reported on his form P11D. *[½]*

The NIC due should be collected from any further payments made to Mark. *[½]*

Max 4

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

1. Pigeon Ltd, Mallard Ltd and Goose Ltd are all under the common control of Snipe Ltd. An application was made on 1 March 2020 for VAT group registration.

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

2. Janet runs a wholesale business with a taxable turnover of £250,000. The VAT return for the quarter ended 30 June 2019 was filed on 1 September 2019 and the payment due of £10,000 was made on the same day. The return for the quarter ended 30 September 2019 was filed on time but the payment of £12,500 was made late.

   1) State the due date for filing the VAT return for the quarter ended 30 June 2019.

   2) Briefly explain the default surcharge consequences of these returns.

   (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 2019/20.

   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 £10,000 per year.

   Calculate the deemed employment payment made to Derek by Drawings Ltd for 2019/20. (4)

4. **Briefly explain how tax relief is obtained under the Gift Aid and Give As You Earn schemes.** (2)

5. Joseph Ltd had the following transactions during the quarter ended 30 September 2019:

	£
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 2019. 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. **Briefly explain the potential tax treatment of earnings received by an individual who is resident but not domiciled in the UK.** (3)

9. Dave works at an art gallery. On 1 May 2019 his employer agreed to loan him a painting with a market value of £6,000. On 1 April 2020, 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, assuming Frank does not provide any benefits to his employees. (1)

11. X Ltd has a paybill of £600,000 for the month ended 5 May 2019 and £700,000 for the month ended 5 June 2019.

    Calculate the amount of the apprenticeship levy payable, if any, for the month ended 5 June 2019 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)

13. Under Real Time Information, employers are required to report payroll information to HMRC using Full Payment Submissions at or before the time of payment.

    List 4 pieces of information that must be reported for an employee on a Full Payment Submission. (2)

TEST "4"
ANSWERS

1. 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 2020. *[1]*

2. The due date for filing the VAT return for the quarter ended 30 June 2019 is 7 August 2019. *[½]*

   The late return and payment for the quarter ended 30 June 2019 is a default *[½]* and will result in the issue of a surcharge liability notice. *[½]* The notice is effective for a period of 12 months (known as the surcharge period). *[½]*

   The late payment of VAT for the quarter ended 30 September 2019 is a default in the surcharge period. *[½]* The surcharge period is extended to 12 months from the end of the quarter of default (i.e. to 30 September 2020) *[½].* The surcharge is calculated at a rate of 2% ie £12,500 @ 2% = £250 *[½]* but will not be collected as it is less than £400 *[½].*

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)	(189)	*[½]*
– Salary paid to Derek	<u>(10,000)</u>	*[½]*
Gross deemed payment	22,811	
Less: Employer's NIC on gross payment: x 13.8/113.8	<u>(2,766)</u>	*[½]*
Net deemed payment	<u>20,045</u>	*[½]*

<u>Working</u>

Class 1 Secondary NIC (10,000 – 8,632) @ 13.8% <u>189</u>

<u>Tutorial Note</u>

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

4. Under the Gift Aid scheme, cash donations are treated as made net of basic rate tax *[½].* The individual can claim higher rate/additional rate relief on the gross amount of the payment through their self-assessment return. *[½]**

Under Give As You Earn, the employee agrees an amount which will be deducted from their pay each month by their employer. *[½]* The amount is deducted from their gross pay for PAYE tax purposes to give full tax relief via the payroll. *[½]*

*[*Alternative ½ given for mentioning extension of basic/higher rate limits by gross amount of donation.]*

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]*

6. £3,000 monthly salary *[½]* used – pension contributions ignored as do not reduce salary subject to NIC

   3,000 – 1,750 threshold x 6% *[½]* **=** £75 for 11 months *[½]*

   December: 8,000 – 1,750 x 6% = £375 *[½]*

   Postgraduate loan deductions are payable to HMRC each month *[½]* on the 22nd if paying electronically (otherwise 19th) *[½].*

7. Returns

   Paving Stone Ltd is required to submit form CIS 300 to HMRC. *[½]*

   The due date for submission of the CIS 300 to HMRC is 19th of the month. *[½]*

   Penalties

   A late CIS 300 return attracts a fixed penalty of £100 *[½].* As the return is outstanding for more than two months *[½]* after the filing date, a further fixed penalty of £200 will be due *[½].* A further penalty is due as the return is more than six months late *[½]* calculated as the greater *[½]* of £300 or 5% of the deductions due. *[½]*

8. Individuals who are UK resident but not domiciled here are taxed on their UK earnings on an arising basis *[½].* Overseas earnings of non-domiciled individuals may be eligible to be taxed on a remittance basis *[½]* although this may incur a 'remittance basis charge'. *[½]*

   The remittance basis applies if the employee is a remittance basis user for the tax year in which the duties are performed *[½]* and the tax year is one of three tax years following three consecutive years of non-residence *[½].*

   Where this does not apply, the remittance basis still applies to chargeable overseas earnings *[½]* where the employment is with a foreign employer and the duties of the employment are performed wholly outside the UK *[½].*

   [Credit also given for any other valid points.]

   Max 3

9. 2019/20 benefit: £6,000 x 20% *[½]* x 11/12 *[½]* = £1,100

   Transfer: higher of

   a) Market value at transfer: £5,500 *[½]*
   b) Original market value: £6,000 less amount charged for use (£1,100) *[½]* = £4,900

   Class 1A NIC payable by Dave's employer: £1,100 + £5,500 = £6,600 x 13.8% = £911 *[½]*

   The due date for payment of the Class 1A NIC is 22 July 2020 (19 July if not paying electronically). *[½]*

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].*

11.

Month ended 5 May 2019	£	
600,000 x 0.5%	3,000	*[½]*
Less: Levy allowance		
1/12 x 15,000	(1,250)	*[½]*
Amount payable	1,750	
Month ended 5 June 2019		
1,300,000 x 0.5%	6,500	*[½]*
Less: Levy allowance		
2/12 x 15,000	(2,500)	*[½]*
	4,000	
Less: Amount paid for May	(1,750)	*[½]*
Amount payable	2,250	

Due for payment 22nd June 2019 (19th if not paid electronically). *[½]*

12. Earnings subject to tax:
£50,000 – (£50,000 x 8%) = £46,000 *[1]*

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

Tutorial Note:

No NIC relief is given for employee pension contributions

13. Any *four* from:

- Taxable pay to date
- Total tax and NIC to date
- Gross earnings to date for NIC purposes
- Taxable pay for the current period
- Gross earnings for NIC purposes for the current period
- Tax and NIC for the current period
- Student loan deductions withheld
- Statutory payments made eg SMP; SSP
- Hours normally worked
- Pay frequency

[½ each]

Max 2

LONG QUESTIONS

1. For the purpose of this question you should assume that 2019/20 rates and allowances continue to apply in 2020/21.

Martin Ltd, based in Manchester, has recently recruited Julie, their new human resources director. Julie will start work on 1 June 2020 and will be paid £60,000 per annum.

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

Until Julie finds a new property, the company will allow her to use the company's own flat. The flat was purchased in April 2009 at a cost of £150,000, and its current market value is £425,000. In August 2015, the company installed a new kitchen at a cost of £10,000. The annual value of the property is £750. Julie will move in on the day she starts work.

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

A diesel car will be provided for Julie's private use. The car has a 1.1 litre engine with CO_2 emissions of 94 g/km and has a list price of £14,000. The car will be available when she starts work.

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

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

Julie underpaid tax of £800 in 2018/19.

Another of Martin Ltd's employees, Lisa, will finish repaying her student loan on 1 September 2020. She is in repayment plan 2. She earns £36,000 per year and is paid monthly. Lisa is due to go on maternity leave on 1 October 2020.

You are required to:

1) Calculate the total taxable value of the benefits provided to Julie in 2020/21 (9)

2) State how and by what date these benefits must be reported to HM Revenue & Customs. (1)

3) Calculate Julie's tax code for 2020/21, assuming it includes a figure for benefits of £14,250. (2)

4) Calculate the deductions Martin Ltd should take in 2020/21 on account of Lisa's student loan. (2)

5) Explain how Lisa's statutory maternity pay will be calculated and for what period she will receive maternity pay. (3)

6) Explain to what extent an employer can recover statutory maternity pay paid to employees. (3)

Total (20)

2. You have recently received a letter from Sheila Duncan, the Human Resources manager at Strata Ltd, an electronics company. The following is an extract from the letter:

“As you know the business has not been doing well in recent years. Following a thorough review, the decision has been taken to make five members of staff redundant.

All employees will work their notice period in full. At the end of their notice period, each employee will be entitled to statutory redundancy pay but, the owner of the company has also decided that each employee will receive an additional lump sum payment. The junior employees will receive an additional payment of £5,000. The manager will receive £25,000 and will also be able to keep his company car when he leaves. This cost £22,500 when new (CO_2 emissions 176g/km) and is now worth £11,500. A contribution of £5,000 will be made to his registered pension scheme.

We are keen to do our best for the employees at this difficult time and as such have arranged for them to receive outplacement counselling services. The fees paid for each employee amount to £1,000.

In addition, I would like to be able to advise them of the tax and National Insurance consequences of the payments. Of course, I also need to make sure that the company treats the payments correctly and deals with any administrative requirements. We have never had to make staff redundant before.”

You are required to draft a letter to Sheila Duncan explaining:

1) **The tax and National Insurance implications of the proposed payments.** (15)

2) **The company’s PAYE and reporting obligations in respect of the proposed payments.** (5)

Total (20)

Assume that you are writing in 2019/20.

3. You are the tax adviser to Supa-Dupa Ltd, a small but fast-growing UK technology company.

One of the directors has sent you the following email:

Dear Tax Adviser,

As you may remember from our recent discussions, Supa-Dupa Ltd wishes to establish a tax advantaged share scheme.

I'd be really grateful if you could respond to this email with a summary of the different types of tax advantaged share schemes. In particular, we are interested in the following details for each type of plan:

1 The maximum value of shares or options that can be awarded;

2 The Income Tax and National Insurance implications of obtaining shares or exercising options;

3 Any relevant time limits for which shares must be held in the scheme or within which options must be exercised.

Also, I hope you don't mind me asking, but my husband participates in his employer's registered Enterprise Management Incentives Scheme. He was granted an option to purchase 25,000 shares at £2.50 each in April 2019 (the market value at the time was £3.00).

The company has performed really well over the year and in May 2020 he will exercise his option to purchase the shares, which are expected to be worth £5.50 per share. I believe they are readily convertible assets. Could you calculate the amount liable to income tax and tell me how the tax needs to be paid?

Yours sincerely,

Florence

You are required to draft a response to Florence's queries. Marks will be awarded as follows:

1) Summary of the different types of tax advantaged share schemes. (14)

2) Calculation of the tax liability in respect of Florence's husband's share options. (3)

Total (17)

4. You have received the following email from one of your clients:

"As you may know, we have recently been taken over by a multi-national company. As part of the group plans, we will be recruiting a number of new employees. Some will work wholly in the UK, but others will work six months in the UK followed by six months overseas, whilst others will work overseas on two to three year assignments. Some will therefore be resident in the UK whilst others will become non-resident. All are UK domiciled. How will their residence position affect the UK taxation of earnings from the overseas employment?

Where an employee is required to work partly in the UK and partly overseas, we will pay for the costs of travelling to and from the assignment. We will also cover the cost of accommodation whilst on assignment. However, we are unsure whether to do this by reimbursing the employee directly or by paying a round sum allowance from which they can pay for the costs. Can you explain the income tax and NIC treatment of the above payments, as well as any reporting requirements?

As an incentive to recruit the required employees, we are also prepared to pay for the costs of spouses and children visiting the employees whilst on assignment. I am sure the potential employees will want to know whether such payments will be taxed on them as a benefit so please explain whether such payments will be taxable.

Finally, an employee from one of the overseas offices is coming on assignment to the UK for two years although he will spend up to two months working overseas during this period. He has never been to the UK before and I understand he will be resident and not domiciled in the UK. Again, how will he be taxed in respect of the earnings relating to his overseas duties? Whilst he finds his own flat to rent, we are going to pay for him to stay in a hotel. What are the consequences of this?"

You are required to draft an email setting out your responses to the questions raised. (10)

5. Heather Murphy is in the process of opening a children's nursery, where she will employ three assistants. She is aware she must register with HMRC as a new employer and she is going to use a software package to process the payroll. She is very nervous about making mistakes in the administration of the scheme and has asked you to write to her and explain what she needs to do.

You are required to draft a letter to Heather explaining:

1) What a Full Payment Submission is and when it must be submitted. (3)

2) What she must do when an employee starts. (4)

3) When PAYE must be paid to HMRC. (2)

4) The interest and penalties for late payment of PAYE. (4)

5) Any end of year procedures which must be completed. (7)

You are NOT required to refer to penalties for incorrect returns.

Total (20)

6. Robert and Colin have formed a company, R&C Building Contractors Ltd, and own 10 shares each. They both worked as sub-contractors in the building industry earning £30,000 each (gross) in 2019/20. The company started trading on 1 April 2020 as a subcontractor for a large building firm and it is estimated that turnover in its first year will be £100,000.

R&C Building Contractors Ltd has sub-contractors working for it.

You are required to:

1) Explain the rules for determining whether a company qualifies for gross payments under the Construction Industry Scheme. (4)

2) Explain R&C Building Contractors Ltd's obligations under the scheme in connection with payments to sub-contractors. (8)

3) State the penalty position where a return is submitted late.

[You are NOT required to refer to penalties where information has been deliberately withheld.] (3)

In July 2020 Robert provided you with the following information regarding three sub-contractors who worked for the company in the previous month.

<u>Tom</u>
Invoiced the company £5,000 plus VAT. Included in the total is £2,000 for materials. Tom is a verified sub-contractor.

<u>Dick</u>
Charges £500 per week and has worked three weeks. Dick has not been verified as a sub-contractor.

<u>Harry</u>
Invoiced £4,500 for labour and has been verified as a gross payment sub-contractor.

R&C Building Contractors Ltd received a payment of £10,000 from a contractor, from which tax of £900 was deducted.

4) Calculate the tax to be deducted from the above payments to sub-contractors by the company and the payment of tax to be made to HM Revenue & Customs. (4)

Total (19)

7. Ayesha Rashid, aged 31, worked as a project manager for Aprise Ltd, an Information Technology supplier. In February 2019, she resigned from her employment and set up Magenta Ltd, which specialises in providing Project Management services to large companies. Its main contract is with Aprise Ltd and is caught by the IR35 provisions. Ayesha is the sole shareholder and managing director of the company. There are no other employees.

For the year ended 5 April 2020, Magenta Ltd received the following income:

	£
Aprise Ltd	120,000
One off jobs from other clients	30,000

For the year ended 5 April 2020, Ayesha was paid a salary of £35,000 from Magenta Ltd. Ayesha also incurred travel expenses of £2,300 which were reimbursed by Magenta Ltd. These expenses were for business travel only.

You are required to:

1) Briefly explain the purpose and operation of the IR35 legislation. (2)

2) Calculate the deemed employment payment for 2019/20. (4)

3) Explain how the payment will be treated for PAYE and NIC purposes and explain when any payments are due to be made, making reference to any HMRC concessions. (4)

Total (10)

8. You are a tax assistant in Belle & Belle Tax Advisers. A client, Toby Smith, has written to you regarding his VAT affairs.
High Street

Toby Smith
34 Dearmans Place
London
SW1 3EP

Tax Assistant
Belle & Belle Tax Advisers
Brompton
BM14 2EJ

Dear Tax Assistant

VAT

As you know, I have been registered for VAT as a sole trader for the past two years. My retail toy business has been doing rather well and my turnover is now approximately £145,000 per annum. I am in the process of preparing my VAT return for the quarter ended 31 March 2020, but I am unsure how to treat certain items. I have included below a statement of my activity for the quarter. All of the figures are inclusive of VAT at the rate of 20%.

Statement of activity for quarter ended 31 March 2020

	£
Sales	25,000
Credit Notes issued	330
Purchases	18,000
Telephone bill paid	180
Motor expenses	
Fuel (no private mileage)	350
Repairs	550
New car for my use	25,000

I am anxious to get on top of my VAT accounting and have heard that the annual accounting scheme may make things easier for me. One of my colleagues, Jed Matthews, also runs a toy business and he tells me that he uses the flat rate scheme. However, I am not familiar with either of these schemes and would like some more information on them. Can you tell me whether I would qualify and what the advantages of joining the schemes would be?

Yours sincerely
Toby Smith

You are required to write a letter to Toby Smith which covers the following:

1) **The conditions which must be satisfied in order to join the annual accounting scheme, how the scheme works and how it may benefit him.** (6)

2) **A calculation of the VAT payable for the quarter to 31 March 2020 and the due date for payment.** (4)

3) **A brief description of the operation of the flat rate scheme, including an explanation of whether the scheme would have been beneficial for the March 2020 quarter. (Assume a flat rate of 7.5%.)** (5)

Total (15)

9. In the year ended 31 March 2020, Geronimo Ltd made the following supplies:

	£
Standard rated supplies (excluding VAT)	74,400
Exempt supplies	30,000
	104,400

Input tax for the year is analysed as follows:

	£
Wholly attributable to taxable supplies	20,400
Wholly attributable to exempt supplies	9,600
Non-attributable	1,440
	31,440

You are required to:

1) **Describe the simplified partial exemption tests, stating the consequences if the tests are passed and considering whether Geronimo Ltd passes either test.** (4)

2) **Calculate the amount of input VAT recoverable by Geronimo Ltd for the VAT year ended 31 March 2020 using the standard method of partial exemption, stating when any adjustment should be reported.** (5)

3) **Explain the annual partial exemption test and state when a business can use it.** (3)

Total (12)

10. You have recently (June 2020) received an email from one of your dearest friends, John Macey. Two years ago he started a small double glazing firm and, due to the great customer service that he provides, the business has become extremely successful.

"Dear Fred

I hope that you don't mind me emailing you like this – I could do with a little advice.

As you know my focus, since starting the business, has been on the service that I provide to my customers and I have been having some difficulty keeping my financial records up to date.

Over the past twelve months or so, the VAT returns have been completed and submitted (however, not always on time!) and I have received various letters from HM Revenue & Customs, including penalties which seem to be extremely large. I do not understand all of the paperwork and terms used and would be grateful if you could enlighten me and confirm that the penalties have been administered correctly.

For information, the VAT returns were all submitted online with electronic payment as follows:

VAT Return	Submitted	Paid	Output Tax	Input Tax
Return for 2018			£	£
December	31 January 2019	31 January 2019	250,000	57,000
Returns for 2019				
March	15 May 2019	5 May 2019	420,000	74,000
June	31 July 2019	9 August 2019	474,000	96,000
September	30 October 2019	30 October 2019	555,000	320,000
December	14 February 2020	14 February 2020	780,000	222,000

Is there any way that I can get the penalties rescinded – it is hard enough building a business as well as trying to keep on top of all of the paperwork!

In March 2020, I was lucky enough to win a new contract – however, I was so busy that although I raised the invoice, I forgot to account for the output tax in the VAT return. The value of the contract was £1 million plus VAT. I am considering just putting this omission on my next VAT return – can you confirm that this is acceptable?

I look forward to hearing from you soon.

Kind regards

John"

You are required to draft a response to John. Your reply should:

1)

- **a)** **Explain when VAT returns should be submitted and the VAT paid.** (1)

- **b)** **Outline the rules regarding default surcharges** (7)

2) **Explain the default surcharge consequences of each of the VAT returns submitted by John.** (5)

3) **Explain whether any of the penalties incurred may be rescinded.** (1)

4) **Explain how John should account for the output tax still due and whether any penalty may be incurred in relation to this.** (6)

Total (20)

ANSWERS TO LONG QUESTIONS

Tutorial Note:

When these long questions were set the ATT did not publish marking guides with their model answers.

1. MARTIN LTD

1) Value of benefits to Julie

	Taxable benefit £
Relocation: First £8,000 tax free, balance £2,000 taxable	2,000
Property:	
Annual value (750 x 10/12)	625
Additional value: MV as property owned more than six years	
(425,000 – 75,000) x 2.5% x 10/12 months	7,292
Bus pass	750
Nursery place (s.318 ITEPA 2003) – exempt	Nil
Low emission car: 22% + 4% surcharge	3,033
26% x £14,000 list price x 10/12 months	
Loan – Assume average basis:	
£14,000 when taken out, £12,000 end of year average =	
(14,000 + 12,000)/2 x 2.5% x 10/12 months	271
If strict basis	
1 June – 30 Nov = £14,000 x 2.5% x 6/12 = £175	
1 Dec – 5 April = £12,000 x 2.5% x 4/12 = £100	
Total benefit = £275	
Total benefits	13,971

Tutorial Note:

Regarding the loan, the average method only is liable to be reported on the P11D. As the question just asked for 'value of benefits' either method could be used but, as the strict method gives a greater benefit, Julie would not elect for it and, as the difference is small, it is unlikely HMRC would choose the strict method.

2) Benefits reported on form P11D by 6 July following the end of the tax year.

3) Tax code:

	£
Personal allowance	12,500
Less: Total benefits	(14,250)
Underpaid tax collected of 800 x 100/40	(2,000)
	(3,750)

Converted to K374

4) Student loan:

Lisa gets paid monthly = 3,000 per month (36,000 / 12)
Monthly deductions (3,000 – 2,143) x 9% = £77.13
Round down to nearest pound £77
Employee repays £77 per month x 5 months = £385

5) Maternity pay:

1st six weeks

Calculated by reference to 90% average weekly earnings

For the remaining 33 weeks

She will receive the lower of:

i. 90% of average weekly earnings, and
ii. statutory maternity pay at £148.68

6) Recovery of maternity pay:

Employers can recover 92% of the gross amount of statutory maternity pay paid in a month.

Small employers can recover 103% of the total amount paid.

A small employer is one whose total annual employer and employee NICs payable in the previous tax year (excluding Class 1A and 1B) does not exceed £45,000.

2. STRATA LTD

Our Address

Your Address

Date

Dear Sheila,

<u>PROPOSED REDUNDANCIES</u>

Thank you for your recent letter. I have set out below my answers to your queries.

1) <u>Tax and National Insurance implications</u>

Relief is available where payments and benefits made on termination are taxable as termination payments, rather than normal employment income. An exemption of £30,000 is available for income tax purposes to set against the total termination payments and benefits received by each employee. The total amount of payments and benefits taxable as termination payments will be exempt from National Insurance Contributions (NIC).

Statutory redundancy pay falls within the rules for such termination payments.

However, we will need to consider the additional lump sum payments in a little more detail to see whether they are taxable as termination payments.

Firstly, if the employment contract contains a clause under which the employee has a legal right to receive the termination payment then the payments will be treated as income from the employment and will be subject to tax and NIC as normal. I assume that this is not the case here as you refer to the payments as ‘additional’ payments which have only recently been decided upon.

Secondly, if the employees had a reasonable expectation that they would receive a termination payment then again they would be treated as employment income and subject to tax and NIC in full. This is unlikely to be the case here as the company has not made any employees redundant in the past.

Finally, if the payment is in any way remuneration for services performed rather than compensation for loss of office then the above treatment would apply. However, there is no indication that the payments are in anyway terminal bonuses but appear to be genuine ex gratia payments.

When an employee is allowed to keep their company car, the market value at the date of transfer is taxed as a termination payment. The provision of outplacement counselling is an exempt benefit and not subject to tax or NIC. Similarly, a contribution to a registered pension scheme is an exempt benefit not subject to tax or NIC.

Dealing with the employees in turn, the junior employees will not be subject to tax or NIC on payments made to them on termination as the total of the ex gratia payment of £5,000 and the statutory redundancy pay will be within the £30,000 exemption.

The manager will receive a total package in excess of the exempt amount. This excess will be subject to tax as the top slice of his income. However, none of the payment will be charged to NIC.

2) <u>Company's PAYE and reporting obligations</u>

No report will need to be made in respect of the payments to the junior employees and no PAYE will need to be operated.

As discussed, part of the package provided to the manager will be taxable. The exemption is allocated to cash payments in priority to non-cash benefits. If the cash payout (including statutory redundancy) exceeds £30,000 the taxable cash amount must be subject to PAYE. If the payment is made before the P45 is issued, PAYE should be deducted using the employee's tax code and the payment reflected on the P45. If the payment is made after the P45 is issued, then tax should be deducted using tax code OT on a week one/month one basis. This code does not give the benefit of any allowances and applies progressive tax rates, which allows basic, higher and additional rate tax to be withheld from the payment.

As the package provided to the manager contains a non-cash benefit and the total value exceeds £30,000, a report must be made to HMRC by 6 July following the end of the tax year in which the payment is made.

The report must provide details of the total value of the package, split between cash and the estimated value of the benefits provided.

A copy should be provided to the employee.

Please let me know if you have any other questions.

Yours sincerely

Tax Adviser

<u>Tutorial Note:</u>

It is not necessary to consider the rules in respect of Post Employment Notice Pay (PENP) in this scenario as the termination payments will be made after the notice period has ended.

3. SUPA-DUPA LTD

Dear Florence

Thanks for your email. In response to your query, I have set out the four tax advantaged share scheme plans below with the details you requested:

1) Summary of tax advantaged schemes

Company Share Option Plan (CSOP)

Under a CSOP, the maximum value of shares over which an employee can hold options is £30,000. This value is measured at the date the options are granted.

At the point the employee is granted share options, the acquisition price upon exercise must be stated and it must not be manifestly less than the market value of the shares at that time.

There is no income tax or NIC charge when the option is granted or exercised, providing the share option is exercised between three and ten years after the date of grant.

If the options are exercised outside of the above time limits then a charge to income tax will arise on the difference between the open market value of the shares at exercise less the price paid. This amount will also be subject to Class 1 NICs if the shares are readily convertible assets, which is unlikely to be the case with Supa-Dupa Ltd, an unquoted company.

Enterprise Management Incentives (EMIs)

Under an EMI scheme, an employer can award options to each employee worth up to £250,000 at the time when the option is granted, subject to an overall limit of £3 million on all unexercised options.

The £250,000 award maximum includes £30,000 in respect of CSOP shares.

To obtain advantageous tax treatment, the share option should be exercised within ten years after the date of grant (there is no minimum period required before exercise).

There is no income tax or NIC on the grant or exercise of the option, providing the option was granted at or above market value.

If the options were not granted at market value there is a charge to income tax at exercise, on the discount element. This is calculated by taking the lower of market value of the shares at grant, or at exercise, less the price paid under the option.

This amount will also be subject to Class 1 NICs if the shares are readily convertible assets, which is unlikely to be the case with Supa-Dupa Ltd, an unquoted company.

Share Incentive Plans (SIPs)

There are various ways employees can obtain shares under a SIP:

- 'Free' shares: employers can give up to £3,600 of shares per year to an employee
- Partnership shares: employees can buy shares out of pre-tax pay up to a value of £1,800 or 10% of salary per year, whichever is the lower

- Matching shares: an employer can give up to two free shares for each partnership share purchased

- Dividend shares: employees can use dividends from plan shares to reinvest in the SIP.

The funds used to purchase partnership shares reduce earnings for both income tax and NIC purposes.

There is no income tax or NIC charge on the award of free or matching shares, or on the removal of free, partnership or matching shares from the SIP after five years.

Free, partnership or matching shares taken out within three years are subject to income tax on the market value on the date of removal.

Free, partnership or matching shares removed from the plan between three and five years are subject to tax, generally on the lower of value at award and value on removal.

When dividend shares in a SIP are withdrawn within three years the dividends reinvested become taxable, otherwise there is no charge.

Again, Class 1 NICs would only arise if the shares were readily convertible assets, which is unlikely to be the case for Supa-Dupa Ltd, an unquoted company.

<u>Save As You Earn (SAYE)</u>

Employees contribute between £5 and £500 per month to a SAYE scheme for either three or five years.

At the end of this period, contributions are repaid together with a tax-free bonus. The repayments from the scheme are used to acquire the shares.

The share acquisition price must be stated when the option is obtained and cannot be less than 80% of market value.

There is no income tax or NIC on the grant or exercise of the option.

2) <u>Calculation re: Florence's husband</u>

No tax charge at grant.

Tax at exercise as granted at discount:

Based on lower of

(i) MV at grant (£3); or
(ii) MV at exercise (£5.50)

Less the price paid under the option
25,000 shares x (3.00 – 2.50) = £12,500 subject to income tax.

Readily convertible assets so subject to income tax and Class 1 NICs via PAYE.

If you require any further information, please do not hesitate to contact me.

Yours sincerely

Tax Assistant

4. OVERSEAS EMPLOYMENTS

To: client@company.co.uk
From: adviser@firm.co.uk
Date: xx/xx/xx
Subject: Queries

Thank you for your recent email. I have set out below my responses to your queries.

New employees – taxation of overseas earnings

Employees who are resident in the UK will be taxable in full on their worldwide earnings. The fact that some of these earnings relate to a six month period when working overseas is irrelevant.

Employees who are not resident in the UK will not be taxed on the earnings from the overseas employment in the UK.

Travelling costs

The costs of travelling from the UK on taking up the overseas assignment and the cost of returning to the UK on completion of the assignment will not give rise to a taxable benefit even where the employee remains resident in the UK as the overseas workplace is a temporary workplace. The costs of travel to and from a temporary workplace are allowable expenses which are therefore exempt income. No income tax or NIC is payable and the expenses do not need to be reported.

Similarly, the cost of the accommodation whilst the employee is overseas is an allowable expense. If this is paid for directly by the employer or reimbursed directly to the employee the treatment is as described above.

If the costs were covered by payment of a round sum allowance (which is meant to do no more than reimburse an employee for qualifying expenses), the allowance will be exempt from tax and NIC and does not need to be reported. In any other case, the allowance must be subject to PAYE. The employee must include the allowance on his tax return but can claim a deduction in respect of the amount relating to allowable expenses.

The round sum allowance is also subject to Class 1 NIC to the extent it exceeds the amount of any specific and distinct business expenses.

Family travel costs

Where an employee is overseas for a continuous period of 60 days or more, the payment of travel costs by the company of two visits per tax year by the employee's spouse and children will not give rise to a taxable benefit. If more than two visits are paid for, only two visits qualify for relief.

A child is someone who is under 18 at the start of the journey.

If the employer pays for additional accommodation and subsistence costs for the spouse and children, such payments will be taxable.

Employee from overseas office

If no action is taken, the employee will be taxable on worldwide earnings on the receipts basis as normal. However, as the employee is resident but not domiciled in the UK, he can make a claim for the remittance basis.

The individual will be eligible for overseas workday's relief such that the earnings attributable to his non-UK duties will only be taxed in the UK if they are remitted to the UK.

If the remittance basis claim is made he will not be entitled to a UK personal allowance. This claim is likely to be worthwhile only if his unremitted overseas income exceeds the personal allowance.

The provision of the temporary accommodation on first relocating to the UK will not be taxable or subject to NIC. The UK will be a temporary workplace (provided the assignment is not expected to last more than two years) and the accommodation payment is part of the costs of travel. Again the payment does not need to be reported on the P11D.

Please let me know if you have any other questions.

Kind regards

Tax Adviser

5. HEATHER MURPHY

Our Address

Your Address

Date

Dear Heather

PAYE ADMINISTRATION

Further to our recent conversation, I have set out below the answers to your questions.

Full payment submission

Under Real Time Information, payroll information must be submitted to HMRC when or before payments are made to employees. The information is submitted electronically using a Full Payment Submission (FPS) which will be generated by your payroll software.

It will include details of the amount of PAYE income paid to all employees (including any taxable benefits included in payroll) and deductions such as income tax and class 1 national insurance contributions (NIC).

In addition, the FPS will report information regarding the employees' identities such as name, date of birth and address as well as the pay frequency for each employee, the number of hours normally worked and PAYE tax code.

New employees

You must obtain forms P45 from new employees who have them, showing income and tax to date together with their current tax code number, name and national insurance number.

You must report the date on which the employment started, the employee's address and passport number (if known) on the FPS for when the employee is first paid.

You will also need to report a 'starter declaration' for the employee and determine the tax code to apply. If the employee has a current year form P45, the P45 can be used to determine these. Otherwise, in most cases you will have to ask the employee to state which starter declaration applies. HMRC's 'starter checklist' can be used for this purpose (and to obtain the other information to report on the FPS).

Payment of PAYE

PAYE must be applied at the time when payment is made.

Tax (and NIC) due for a tax month (which runs from the 6th to the 5th) is payable to HMRC 17 days after the end of the tax month on 22nd of each month where payments are made electronically (otherwise on 19th of each month).

If the total tax and NIC due each month is less than £1,500 on average payments can be made quarterly.

Interest and Penalties for late payment

Interest is charged on amounts of tax and NIC paid late from the due date to the date of payment.

Penalties will be levied where a person is late making a payment of PAYE/NIC in a tax year. The first late payment will not normally give rise to a penalty. Further defaults will give rise to penalties of between 1% and 4% of the tax/NIC paid late depending on the number of defaults to date in the year. In addition, any tax/NIC unpaid after six months (including the first late payment) will incur an additional 5% penalty with a further 5% penalty if still unpaid after 12 months.

Year-end procedures

The final FPS of the year must indicate that it is the final report.

A form P11D must be submitted to HMRC if benefits were provided to an employee which have not been subject to tax via the payroll. The return must be submitted to HMRC (with a copy to the employee) by 6 July following the end of the tax year.

Form P11D(b), which shows any Class 1A NIC due on benefits provided to employees, must also be submitted by 6 July.

The forms can be submitted to the HMRC online via your payroll software.

Finally, form P60 must be provided by 31 May following the end of the tax year to each employee who earned at a rate equal to or above the lower earnings limit for NIC purposes. This contains details of the taxable earnings paid to the employee (including payrolled benefits) along with details of the tax and NIC deducted. A detailed description of payrolled benefits together with the ‘cash equivalent’ amounts must also be provided to employees by 31 May.

Please let me know if you have any other questions.

Yours sincerely

Tax Adviser

Tutorial Note:

The penalties for late payment are at Para 6 Sch 56 FA2009.

6. R&C BUILDING CONTRACTORS LTD

1)

As a sub-contractor, a company will qualify for a gross payment if its turnover in the 12 months before application is at least £30,000 x number of directors (or directors and shareholders if a close company). Alternatively, this 'turnover test' can be met for companies other than close companies where construction turnover is £100,000 or more in the 12 months before making the application for gross payment, regardless of the number of directors/shareholders.

The company and the directors must have submitted all tax returns and paid all tax due on time in the 12 months before the application (the 'compliance' test). The company must also have met its compliance requirements under Companies Act 2006.

The company must also meet the 'business test' and be a UK business providing labour services to carry out construction operations and operate through a bank account (i.e. not be a cash based business).

If the company has gross payment status they will be subject to a Scheduled Review. This is an automated check on whether all tax obligations of the company have been complied with. If the company fails the review, gross payment status will be withdrawn.

2)

When the company takes on a sub-contractor their status must be verified with HMRC.

HMRC will advise whether the contractor has gross payment status (no deduction required) or is a registered sub-contractor (deduct 20% of labour charges) or is unregistered (deduct 30%). Their status remains unchanged until the company is notified by HMRC.

A return is required every month detailing the payments made to sub-contractors and submitted to HMRC. The return must be made online by the 19th following the end of tax month (5th of each month). Payment must be made by the 22nd where payment is made electronically (19th otherwise).

Monthly returns should include details of amounts paid, tax deducted and materials supplied by the sub-contractor.

Payments may be made quarterly if the total due each month under PAYE and subcontractor's deductions is less than £1,500 on average.

A return does not need to be submitted where no payments have been made to sub-contractors in a month, but HMRC should be notified that a return is not due in order to prevent a penalty notice being issued.

Each time a return is made, a 'status declaration' is required confirming that 'employment status' has been considered.

A statement (or payment slip) must be given to each sub-contractor showing the amount of tax deducted when a payment is made.

Payment slips/statements to sub-contractors can be made with each payment, but there is a minimum requirement to provide at least one per month.

Payment slips/statements must show the contractor's name and reference, detail of payments made, costs of materials and tax deducted.

Payments slips/statements can be made in writing or issued electronically.

3)

A £100 penalty would be charged initially, with an additional £200 penalty if the return was more than two months late.

If the return was more than six months late, a further penalty of 5% of the deductions due for the period would be charged (or £300 if greater).

This penalty is repeated where a return is more than 12 months late.

4)

CIS Calculation:

	£	£	£
Tom			
Gross	5,000		
Materials	(2,000)		
Net		3,000	
Tax deducted @ 20%			600
Ignore VAT			
Dick			
Gross (3 x £500)		1,500	
Tax deducted @ 30%			450
Harry			
Gross		4,500	
Tax deducted – nil			-
			1,050
Less: Tax deducted by contractor			(900)
Payment due			150

7. MAGENTA LTD

1) IR35 legislation

The IR35 rules are an anti-avoidance measure to prevent an individual avoiding income tax and NIC by inserting an intermediary between himself and his employer.

Any income from ‘relevant engagements’ received by the company and not paid to an individual by way of salary/benefits will be treated as notional salary paid to the individual.

2) Deemed employment payment

	£
Income from relevant engagements	120,000
Less: Deduction at flat rate of 5%	(6,000)
Less: Deductible travel expenses	(2,300)
Less: Actual salary paid	(35,000)
Less: Employer’s NIC (W)	(3,639)
Gross deemed employment payment	73,061
Less: Employer’s NIC	
73,061 x (13.8/113.8)	(8,860)
Deemed employment payment to Ayesha	64,201

Working

Class 1 secondary NIC (35,000 – 8,632) @ 13.8%	3,639

The NIC employment allowance is not available for personal service companies where the director is the only employee.

3) PAYE and NIC

The deemed employment payment is treated as paid on 5 April 2020 and is subject to PAYE and NIC as a normal salary.

It should be reported on a Full Payment Submission (FPS) as normal.

The PAYE and NIC due should be paid to HMRC by 22 April 2020 where payment is made electronically (otherwise by 19 April).

However, HMRC allow a provisional calculation to be reported on the FPS and an estimated payment of PAYE and NIC.

No penalties will be incurred in respect of late payment of PAYE/NIC provided any outstanding amounts are paid by 31 January 2021, although interest will accrue from the normal due date.

Any adjustments must be reported to HMRC on an Earlier Year Update by 31 January 2021.

8. TOBY SMITH

Tax Assistant
Belle & Belle Tax Advisers etc

Toby Smith
34 Dearmans Place etc

Date

Dear Toby,

Further to your letter, I have addressed each of your queries in turn.

1) Annual accounting scheme

The annual accounting scheme is available to traders if there are reasonable grounds for believing that the value of taxable supplies (VAT exclusive) made in the next 12 months will not exceed £1.35m. As your business's turnover is comfortably below this limit you would be eligible to join.

Under the scheme you would only need to file one VAT return per year, due two months after the end of the VAT year.

However, payments on account are required to be made throughout the VAT year.

These are based upon the previous year's VAT liability. 90% of this liability will be paid for by nine monthly payments starting in the fourth month of the VAT year.

The balance is payable two months after the end of the VAT year (due with the return).

The main advantages of the scheme are that:

You only file one VAT return per year, instead of the normal four, hence simplifying your administration.

During the year you pay a set amount each month, which smooths out the cash flow of the business.

2) Computation of VAT payable for March quarter

		£
Output Tax: (25,000 – 330) x 1/6 =		4,112
Input Tax:		
Purchases	18,000	
Phone bill	180	
Fuel	350	
Repairs	550	
	19,080	
19,080 x 1/6 =		(3,180)
VAT payable:		932

VAT is not recoverable on the purchase of the car as it is subject to an input tax block.

The due date for the return and payment is 7 May 2020.

3) Flat rate scheme

The flat rate scheme is available to businesses with an estimated VAT exclusive annual taxable turnover of up to £150,000, for the next year.

Also to join the scheme one should not be convicted of any VAT offence, or be served a penalty for dishonesty, in the 12 months prior to application.

Under the scheme you are allocated a trade sector specific flat rate percentage. Your VAT liability is this percentage applied to your VAT inclusive total turnover.

VAT is charged as normal at the standard, zero and reduced rates to customers and VAT is suffered as normal on purchases.

There is no input tax deduction permitted under the scheme, with the exception of VAT incurred on capital purchases which cost £2,000 or more (VAT inclusive).

Computation of VAT due for March quarter under flat rate scheme

The flat rate would simply be applied to the VAT inclusive turnover of £24,670 (25,000 – 330). Therefore at 7.5% this would be VAT due of £1,850. This represents an increase of £918 (1,850 – 932) compared with the normal method of accounting for VAT.

Although the flat rate scheme offers further simplification of your VAT accounting, as your overall tax bill is likely to be higher under the scheme it is probably not appropriate for you.

If you require any further information, please do not hesitate to contact me.

Yours sincerely

Tax Assistant

9. GERONIMO

1)

In any quarter, if either of the simplified partial exemption tests are passed, a business can treat itself as de minimis and provisionally recover input tax relating to exempt supplies, without carrying out a full partial exemption calculation. The de minimis status is reviewed as normal at the year end.

At the end of the year, if either of the simplified partial exemption tests are passed, a business can treat itself as de minimis and recover input tax relating to exempt supplies, without carrying out a full partial exemption calculation. If a business fails the simplified test for the year then it needs to carry out a full partial exemption calculation for the year and account for any under or over recovery.

The tests are as follows:

Test 1

The total input tax is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies.

The monthly average total input tax incurred by Geronimo Ltd is 31,440/12 = 2,620. This exceeds an average of £625 per month and therefore Geronimo Ltd does not pass Test 1.

Test 2

The total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies.

Applying this to Geronimo Ltd, the monthly average is (31,440 – 20,400)/12 = 920, which exceeds £625 per month and therefore Geronimo Ltd does not pass Test 2.

2) Year ended 31 March 2020

Proportion of residual input tax deductible

Recovery percentage	
74,400 / 104,400 = 71.26% rounded up to 72%	
72% x 1,440	1,037
Total input tax attributable to exempt supplies	
9,600 + (1,440 – 1,037)	10,003

This is over £625 per month (10,003/12 = 834) therefore not de minimis.

Therefore VAT recoverable is	
20,400 + 1,037	21,437

Any annual adjustment can be included within the final VAT return of the year ended 31 March 2020 (i.e. the return for the period ended 31 March 2020) or the first return of the new VAT year (i.e. the return for the period ended 30 June 2020).

3)

The annual test is available to businesses that anticipate incurring not more than £1 million input tax in the current year. It enables a business to provisionally reclaim all of its input tax in the current year if it was de minimis in its previous year. At the end of the year it must review the partial exemption position for the whole year and if it is not de minimis it must make the appropriate payment to HMRC.

10. JOHN MACEY

1)

To: John Macey
From: Fred Bloggs
Subject: VAT query

Dear John

It was great to hear from you. Congratulations on the success that you are having with the business.

Before going into detail about the implications of each VAT return, I thought that I would provide you with some information in general.

a) Completion of VAT returns

VAT returns should be completed and any tax due paid to HMRC on a timely basis. For information, the VAT return and payment must reach HMRC within one month and seven days of the end of the return period.

b) Default Surcharges

A surcharge liability notice (SLN) is issued when HMRC does not receive either or both the payment and return by the due date.

A SLN is effective for a 12 month period to the first anniversary of the last day of the VAT period for which the return was late.

Any subsequent late submission or payment in this 12 month period will result in the SLN period being extended to 12 months from the end of the quarter of the default and in addition a default surcharge, which is a financial penalty, may be incurred.

A default surcharge is levied when a business is within an SLN period and fails to make payment of a VAT liability by the due date.

The default surcharge is calculated at a percentage of the tax due and increases on each default. The rates are 2%, 5%, 10% and 15%.

HMRC will not issue a surcharge assessment at the 2% or 5% rates for an amount of less than £400.

HMRC will charge a minimum of £30 where the 10% and 15% rates apply.

2) VAT Returns

Given the details that you have provided, I have summarised the implications of each of the VAT returns and payments;

VAT Return for 2018:	Submitted	Paid
Qtr 31.12	31/01/19	31/01/19
On time		

VAT Returns for 2019:

Qtr 31.3	15/05/19	05/05/19
Return submitted late		
SLN issued to 31/3/20 – no default surcharge as payment on time		
Qtr 30.6	31/07/19	09/08/19
Payment late – SLN extended to 30/6/20		
Default surcharge (£474K - £96K) x 2% = £7,560		
Qtr 30.9	30/10/19	30/10/19
On time		
Qtr 31.12	14/02/20	14/02/20
Return and payment late – SLN extended to 31/12/20		
Default surcharge (£780K - £222K) x 5% =£27,900		

3) Reasonable Excuse

A default can be disregarded (and no penalty levied) if a trader has a reasonable excuse for the default.

This does not apply to you and therefore the penalties are valid.

4) New Contract – Correction of Error

It is noted that you have failed to account for VAT of £200,000 on the March 2020 VAT return.

If an error does not exceed the greater of:

- £10,000; or
- 1% of turnover (subject to an upper limit of £50,000)

it may be corrected on the VAT Return for the period in which the error was discovered.

However, due to the size of your error this must be reported to HMRC either by letter or on form VAT 652. It cannot be corrected on your next VAT Return.

Penalty for Incorrect Return

You should also note that you may be subject to a penalty.

Penalties can be levied where a tax return contains an inaccuracy which leads to an understatement of tax.

Different levels of penalty apply depending on the seriousness of the offence which gives rise to the error.

There are three categories of offences giving rise to errors as identified below:

- Careless action = failure to take reasonable care

- Deliberate but not concealed action = the inaccuracy is deliberate but the taxpayer does not make arrangements to conceal it.

- Deliberate and concealed action = the inaccuracy is deliberate and the taxpayer made arrangements to conceal it (e.g. by submitting false evidence in support of an inaccurate figure).

The penalties are expressed as a percentage of the potential lost revenue, which in this case is the output VAT of £200,000 not paid.

It would appear that in your case the error is due to a failure to take reasonable care therefore the relevant percentage is 30%, giving a maximum penalty of £60,000.

However, penalties are reduced where there is disclosure to HMRC. It is likely that if you make a full, unprompted disclosure of the error the penalty could be reduced by HMRC to £nil.

The late payment of the VAT of £200,000 will also result in a further default surcharge of £200,000 @ 10% = £20,000. The SLN period will be extended to 31 March 2021.

Please give me a call if you would like to discuss.

Kind regards

Fred