

Tolley[®] Exam Training

ATT PAPER 3

BUSINESS COMPLIANCE

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

May and November 2024 Sitzings

PQ663

Tolley[®]

Tax intelligence
from LexisNexis[®]

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher.

This material contains general information only. Whilst every care has been taken to ensure the accuracy of the contents of this work, no responsibility for loss occasioned to any person acting or refraining from action as a result of any statement in it can be accepted by the author or the publishers.

Unless otherwise agreed to by LN in writing, use of the Online Services is permitted only via individual users engaged in an active user session and may not be collected via automated or robotic methods.

Regardless of the data delivery method, Content may not be used in conjunction with a generative AI solution.

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 2023 and Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours** and will have a mixture of computational and written questions 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. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

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. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for ‘format’** within the long form questions in Part II. There are simply **58 marks for technical content and 2 marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate’s presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

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

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying “yes I know that point, yes I understand that advice given” - the test is would you have actually put those points in your answer?

You won’t find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to produce.

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

Reviewing your answers

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

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

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

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

Reviewing the model answer

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

LAW AND ETHICS

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

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

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

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (6th edition) that are included in the Paper 3 syllabus are:

Chapter 6	Criminal and Civil Law
Chapter 11	Employment and Other Working Relationships
Chapter 17	Company Law: The Basics
Chapter 18	Company Law: Share and Loan Capital

Ethics:

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

PRPG (2018)

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act

PCRT (2023)

Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors - Members in business
Chapter 25	Help sheet D: Request for data by HMRC
Chapter 26	Help sheet E: Members' personal tax affairs

CONTENTS**SHORT FORM QUESTIONS**

Test 1
Test 2
Test 3
Test 4

LONG QUESTIONS

- 1 Vino Ltd
- 2 Build Ltd
- 3 Neville
- 4 Holly
- 5 Teresa
- 6 Scott
- 7 Baines & Co
- 8 Quality Build Ltd
- 9 Thrones Ltd
- 10 Wolf Ltd

ATT EXAMINATIONS

2024

TAX TABLES

INCOME TAX

	2023/24
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	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
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 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47
Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

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

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

ATT EXAMINATIONS

2024

TAX TABLES

Pension contributions

Basic amount qualifying for tax relief	£3,600
Annual allowance (Note 1) £	Minimum pension age
2023/24 60,000	55
Maximum tax-free lump sum	£268,275

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

ITEPA mileage rates

Vehicles

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

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

Company cars and fuel – 2023/24

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

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

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24

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

Official rate of interest - 2023/24 2.25%

ATT EXAMINATIONS

2024

TAX TABLES

Childcare

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

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

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

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

Postgraduate Loans

Employee earnings threshold £1,750 per month

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

STATUTORY PAYMENTS

Statutory sick pay	Weekly rate
Average weekly gross earnings	£123.00 or more £109.40
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £172.48 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	Weekly rate
	£
First child	24.00
Each subsequent child	15.90

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

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

ATT EXAMINATIONS

2024

TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

2023/24

Class 1 limits

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

2023/24

Employment allowance

Per year, per employer £5,000

Class 1 primary contribution rates

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

Class 1 secondary contribution rates

Earnings above ST (Notes 3 & 4) 13.8%

Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

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

Other contribution limits and rates

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

Class 2 contributions

Normal rate £3.45 pw
Small profits threshold (Note 5) £6,725 pa
Lower profits limit (LPL) (Note 5) £12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions £17.45 pw

Class 4 contributions

Annual lower profits limit (LPL) £12,570
Annual upper profits limit (UPL) £50,270
Percentage rate between LPL and UPL 9%
Percentage rate above UPL 2%

SIMPLIFICATION MEASURES

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

ATT EXAMINATIONS

2024

TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

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

CASH BASIS

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

CAPITAL ALLOWANCES

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

- Notes:** (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.
- (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
- (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

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

Capital expenditure incurred by a person on research and development.

New zero-emission goods vehicles.

New cars if the car either emits 0g/km of CO₂ or it is electrically propelled.

Electric vehicle charging points expenditure.

Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate	20%	VAT fraction	1/6
---------------	-----	--------------	-----

Limits

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

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate	9p
------------------	----

ATT EXAMINATIONS

2024

TAX TABLES

CORPORATION TAX

Financial year	2023	2022
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	2023	2022
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	Lifetime rate	20%
-------------------	--------------	----------------------	-----

Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

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

Residence nil rate bands (Note 3)

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

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

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

Quick succession relief

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

Lifetime exemptions

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

ATT EXAMINATIONS

2024

TAX TABLES

CAPITAL GAINS TAX

Annual exempt amount	2023/24 £6,000
----------------------	--------------------------

CGT rates for individuals (Notes 1 & 2)

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

CGT rates for trusts & individuals paying the remittance basis charge

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

CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%
--------------------	-----

Business Asset Disposal relief (BADR)

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

Investors' relief (IR)

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 BADR/IR first.
 - (3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
 - (4) The rate is 18% if the gain is in respect of a residential property
 - (5) The rate is 28% if the gain is in respect of a residential property
 - (6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

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

ATT EXAMINATIONS

2024

TAX TABLES

Retail Prices Index

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

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

1. Darren exercised 1,000 options in his employer's Enterprise Management Incentives Scheme in March 2024. The market value at the time of exercise was £5.50 per share.

He was granted the options in 2019 at a price of £3.50 per share. The market value at the time of grant was £4.25 per share.

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

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

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

3. Sadiq started his sole trade business on 1 January 2021, drawing up accounts to 30 June each year. His results for recent accounting periods are as follows:

	£
Y/e 30 June 2023	10,000
Y/e 30 June 2024	36,000

He had overlap profits brought forward from commencement of £6,000

- Calculate the taxable profits for 2023/24 assuming no elections are made.** (4)

4. Belle is an architect and has registered under the VAT Flat Rate Scheme. Her VAT exclusive turnover for the quarter ended 31 December 2023 is £150,000 and she has made standard-rated purchases of £50,000 (VAT exclusive) in the quarter. The flat rate applicable to an architect is 14.5%.

- Compute the VAT payable by Belle for the quarter ended 31 December 2023, using both the flat rate and the normal method of calculation.** (2)

5. On 1 May 2023, 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 2023. Her employer gave her the following redundancy package:
- 1) A statutory redundancy payment of £12,000.
 - 2) An ex gratia payment of £20,000.
 - 3) A terminal bonus of £10,000 as she completed the project that she was working on.
 - 4) A payment of £15,000 as she agreed not to work for her employer's competitor for a period of one year following her redundancy.
 - 5) Participation in a retraining programme costing £1,500.

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

6. Nita is VAT registered and has run her event planning business for many years. In the quarter ended 31 March 2024, 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 2024, and briefly explain whether VAT is recoverable on each cost. (4)

7. Aamil and Badal have been in partnership for many years drawing up accounts to 31 December each year. Profits were shared between the partners in the ratio 60% to Aamil and 40% to Badal. Chris joined the partnership on 1 August 2023.

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

The partnership profits for the year ended 31 December 2023 are £150,000.

Allocate the partnership profits for the year ended 31 December 2023. (3)

8. On 1 July 2022 Reliant Ltd, a close company, made a loan of £100,000 to Julie, one of its shareholders. The loan was repaid as follows:

	£
30 June 2023	20,000
1 December 2023	40,000
10 June 2024	40,000

Reliant Ltd draws up accounts to 31 December.

Calculate the 's.455 tax' payable by Reliant Ltd on the loan and state when it is payable. State the dates when the 's.455 tax' will be repayable to Reliant Ltd. (4)

9. Pigeon Ltd, Mallard Ltd and Goose Ltd are all under the common control of Snipe Ltd. An application was made on 1 March 2024 for VAT group registration.

State three consequences of group registration. (3)

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

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

11. Nicola was provided with a newly registered company car by her employer on 6 December 2023. The car emits 60g/km of CO₂ emissions and has a list price of £20,000, although her employer obtained the car at a 25% discount. Nicola made a capital contribution of £2,000 towards the car and contributed £50 per month in the tax year for private use.

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

12. Chaitan 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 2024, 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 Chaitan's options. (4)

**TEST 1
ANSWERS**

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

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

Darren's options have the following income tax consequences:

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

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

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

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

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

Total 4

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

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

[$\frac{1}{2}$ mark for any other relevant points]

Max 2

3.

The basis period for 2023/24 is from 1 July 2022 to 5 April 2024.

The standard part is from 1 July 2022 to 30 June 2023.

[½]

The transition part is from 1 July 2023 to 5 April 2024.

The steps:

Step 1: Profit of the standard part

Y/e 30 June 2023 = £10,000

[½]

Step 2: Profit of the transition part

P/e 31 March 2024 ($9/12 \times 36,000$) = £27,000

[½]

Step 3: Step 2 less overlap profit

£27,000 – £6,000 = 21,000

[½]

Step 4: Step 1 plus Step 3

£10,000 + £21,000 = £31,000

[½]

Both Step 3 and Step 4 are not nil or a loss so proceed to Step 5

Step 5: lower of Step 3 and Step 4

Lower of £21,000 and £31,000 = £21,000

[½]

Transition profits = £21,000. These are spread over 5 years ie £4,200 per year

[½]

Step 6: Step 1 is a profit, so Step 1 plus appropriate proportion of transition profits

Taxable profits for 2023/24 are £10,000 + £4,200 = £14,200

[½]

Total 4

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

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

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

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

5.

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

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

Total 4

6.

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

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

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

Total 4

7.

	Total £	Aamil £	Badal £	Chris £	
<u>Y/e 31.12.23</u>	<u>150,000</u>				
1.1.23 – 31.7.23 (7/12 x 150,000)	87,500				[½]
Balance (60:40)	<u>(87,500)</u>	52,500	35,000		[½]
	<u>Nil</u>				
1.8.23 – 31.12.23 (5/12 x 150,000)	62,500				[½]
Salary (5/12 x £12,000)	<u>(5,000)</u>			5,000	[½]
	57,500				
Balance (50:40:10)	<u>(57,500)</u>	<u>28,750</u>	<u>23,000</u>	<u>5,750</u>	[1]
	<u>Nil</u>	<u>81,250</u>	<u>58,000</u>	<u>10,750</u>	

Total 3

8. S.455 tax calculated as 33.75% x lower of:

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

Loan outstanding at 31 December 2022 = £100,000

Loan outstanding at 1 October 2023 = £80,000

ie £80,000 [1]

s.455 tax payable on 1 October 2023 = 33.75% x £80,000 = £27,000 [1]

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

£40,000 loan repaid in y/e 31 December 2023

Therefore £13,500 S.455 tax repayable on 1 October 2024 (being 33.75% x £40,000) [1]

£40,000 loan repaid in y/e 31 December 2024

Therefore £13,500 S.455 tax repayable on 1 October 2025 (being 33.75% x £40,000) [1]

Total 4

9. Consequences:

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

Max 3

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

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

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

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

Total 3

11. 60 g/km = 17% [½]

List price reduced by capital contribution = £18,000 [½]

17% x 18,000 = 3,060 x 4/12 months = £1,020 [½]

Less private use contribution (£50 x 4 months) = £820 [½]

820 x 13.8% Class 1A NICs = £113 [½]

Class 1A NICs must be paid on or before 22 July 2024 where payment made electronically (19 July otherwise) [½]

Total 3

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

The tax and NICs due on the £10,000 increase in value will initially be collected from Chaitan'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 Chaitan does not have enough net pay to cover the full amount of tax and NICs 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 the PAYE from Chaitan within 90 days from the end of the tax year in which the exercise took place. [½]

If Chaitan 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 NICs due should be collected from any further payments made to Chaitan in 2024/25 or 2025/26. [½]

Max 4

PAPER 3
SHORT FORM QUESTIONS
TEST 2 (40 MARKS)

1. Linda is VAT registered and makes both standard rated and exempt supplies. In the quarter ended 31 March 2024 she made taxable supplies of £120,000 and £35,000 of exempt supplies. After directly attributing as much input tax as she can, the following position arises:

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

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

2. Chandler is a VAT registered trader. His VAT return for the quarter ending 31 March 2024 was not filed until 1 July 2024. The VAT due was paid at the same time.

Explain:

- 1) **The due date for filing the VAT return for the quarter ending 31 March 2024.**
 - 2) **The potential penalty implications of the late return and payment.**
- (4)

3. Derek, an engineer, is the sole director and employee of Drawings Ltd. Drawings Ltd had an annual contract with Big Bricks plc to provide engineering services for £100,000 plus VAT in 2023/24. Big Bricks plc is a large client for the purposes of the off-payroll working legislation.

Drawings Ltd reimbursed Derek £2,000 of qualifying business travel expenses and paid accountancy fees of £500. Derek is paid a salary of £40,000 per year by Drawings Ltd.

Calculate the total deemed direct payment made from Big Bricks plc to Derek for 2023/24, assuming Big Bricks plc has opted to deduct qualifying expenses, and explain what Derek will need to report on his income tax return for 2023/24. (4)

4. Shina had been trading for many years as a sole trader, drawing up accounts to 31 October each year. She ceased to trade on 31 December 2023. Trading profits for recent years are as follows:

	£
Y/e 31 October 2022	60,000
Y/e 31 October 2023	45,000
P/e 31 December 2023	3,000

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

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

5. Joseph Ltd had the following transactions during the quarter ended 30 September 2023:

	£
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 2023. Helen is repaying a postgraduate loan.

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

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

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

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

8. Hathaway Ltd was a large company for the year ended 30 June 2023. For the period ended 31 March 2024 its taxable total profits are £18 million.

Calculate the Corporation Tax payments required to be made for the period ended 31 March 2024, giving the due dates of payment. (4)

9. Tolek works at an art gallery. On 1 May 2023 his employer agreed to loan him a painting with a market value of £6,000. On 1 April 2024, the employer gave the painting to Tolek 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 Tolek's employer in respect of the loan and transfer of the painting and state the due date for payment. (3)

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

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

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

11. X Ltd has a paybill of £600,000 for the month ended 5 May 2023 and £700,000 for the month ended 5 June 2023.

Calculate the amount of the apprenticeship levy payable, if any, for the month ended 5 June 2023 and state the due date for payment. (3)

12. On 1 March 2024, Jana, aged 18, commenced part-time employment on a salary of £1,500 per month. This is Jana's first job since leaving school and she is paid on the last day of each month.

Calculate the National Insurance Contributions payable in respect of Jana for 2023/24. (2)

TEST 2 ANSWERS

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

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

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

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

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

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

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

Total 3

2. The due date for filing the VAT return for the quarter ended 31 March 2024 is 7 May 2024, [1/2] being one calendar month after the end of the quarter plus 7 days. [1/2]

As the return was filed late, HMRC could issue a penalty point. [1/2]

A penalty will be charged if the threshold of four penalty points is reached. [1/2]

The total tax due was outstanding more than 30 days after the due date [1/2] so a penalty will be charged totalling 4% of the tax due. [1/2]

An additional penalty will be charged from day 31 to the date payment is made, calculated on a daily basis at a rate of 4% per annum. [1]

A penalty point will not be issued and late payment penalties will not be charged if Chandler has a reasonable excuse for the late filing/payment. [1/2]

[Credit also given for any other valid points]

Tutorial Note:

Where tax is paid more than 15 days late, a penalty of 2% of the outstanding tax is charged. Where tax is paid more than 30 days late, a further penalty of 2% of the tax outstanding at the 30 day point is charged. Here, the full amount of the tax was outstanding at the 30 day point, therefore the total penalty amounts to 4% of the tax due.

Max 4

3.

	£	
Payment (excluding VAT)	100,000	[½] + [½]
Less:		
Expenses paid by Drawings Ltd that would be deductible if met by Derek as an employee		
– qualifying travel expenses	(2,000)	[½]
– no relief for other expenses	(Nil)	[½]
Deemed direct payment	<u>98,000</u>	

Derek will report the total deemed direct payment as employment income on his income tax return. **[1]**

The salary paid by Drawings Ltd does not need to be reported on his return as it is tax free up to the level of the deemed direct payment. **[1]**

Total 4

4.

	Basis Period	£	
2022/23	Y/e 31 October 2022	<u>60,000</u>	[1]
2023/24	1.11.22 – 31.12.23		[½]
	Y/e 31 October 2023	45,000	[½]
	P/e 31 December 2023	3,000	[½]
	Less: overlap profits	<u>(4,000)</u>	[½]
		<u>44,000</u>	

Total 3

5.

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

Total 3

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

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

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

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

Total 3

7. Returns

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

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

Penalties

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

Total 4

8. Very large company threshold for 9 month period = £20 million $\times 9/12 = £15 \text{ million.}$ **[1]**

Tax due = £18m $\times 25\% = 4,500,000.$ **$[\frac{1}{2}]$**

Instalments $£4,500,000 \times 3/9 = £1,500,000.$ **[1]**

Instalment	Due	£	
1	14.9.23	1,500,000	$[\frac{1}{2}]$
2	14.12.23	1,500,000	$[\frac{1}{2}]$
3	14.3.24	1,500,000	$[\frac{1}{2}]$

Total 4

9. 2023/24 benefit: $£6,000 \times 20\% [\frac{1}{2}] \times 11/12 [\frac{1}{2}] = £1,100$

Transfer: higher of

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

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

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

The due date for payment of the Class 1A NICs is 22 July 2024 (19 July if not paying electronically). $[\frac{1}{2}]$

Total 3

10.

1)

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

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

2)

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

Total 4

11.

Month ended 5 May 2023	£	
600,000 x 0.5%	3,000	[½]
Less: Levy allowance		
1/12 x 15,000	<u>(1,250)</u>	[½]
Amount payable	<u>1,750</u>	
Month ended 5 June 2023		
1,300,000 x 0.5%	6,500	[½]
Less: Levy allowance		
2/12 x 15,000	<u>(2,500)</u>	[½]
	4,000	
Less: Amount paid for May	<u>(1,750)</u>	[½]
Amount payable	<u>2,250</u>	

Due for payment 22nd June 2023 (19th if not paid electronically). [½]

Total 3

12. Class 1 primary NICs: 1,500 – PT of 1,048 [½] = 452 x 12% = £54 [½]

Class 1 secondary NICs: 1,500 – ST of 758 = 742 x 0% (as under 21) = Nil [1]

Total 2

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

1.
 - 1) **Explain when a business will be required to compulsorily register for VAT.** (2)
 - 2) **State the condition which needs to be satisfied in order to voluntarily deregister for VAT.** (1)
2. Mark was appointed as a director on 1 January 2024. He receives director's fees of £1,750 per month and was paid a bonus of £20,000 in March 2024.
Calculate the amount of Class 1 primary National Insurance Contributions payable by Mark in January, February and March 2024. (4)
3. In the quarter ending 31 December 2023, Albus made purchases on credit of £72,000 and cash sales of £120,000. All figures are inclusive of VAT.
State the journal entries required to record these transactions in the VAT control account. (3)
4. Apple, Briar and Clover are in partnership, drawing up accounts to the year ended 31 December each year. Apple and Briar receive salaries of £15,000 and £12,000 per annum respectively. The partners share the remaining profits in the ratio 45%:30%:25% for Apple, Briar and Clover respectively. During the year ended 31 December 2023 the partnership made a tax adjusted profit of £110,000.
Show the allocation of the tax adjusted profits for the year ended 31 December 2023 between the partners. (2)
5. Ghurav pays 8% of his salary into his employer's occupational pension scheme. His employer contributes a further 6% on his behalf. Ghurav's annual salary is £50,000.
Calculate the amount of Ghurav's earnings which will be subject to Income Tax and National Insurance Contributions. (2)
6. Josh submitted his VAT return for the quarter ended 30 June 2024 on 31 August 2024 and paid the tax due of £8,000 on the same date.
State the late filing and late payment penalty consequences for Josh. (2)
7. Crown Ltd was incorporated on 1 March 2023, and on 1 May 2023 opened an interest-bearing bank account with an initial deposit of £10,000. On 1 August 2023, the company began to trade. It prepared its first set of accounts to 31 August 2024.
State, with brief explanations, the dates of all of the chargeable accounting periods for Crown Ltd based on the above information. (4)

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

State:

- 1) The maximum period for which SPL and ShPP can be claimed.
 - 2) How Sarita and Nilesh can share entitlement to SPL and ShPP.
 - 3) By when SPL must be taken and any restriction on how it can be taken.
- (4)

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

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

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

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

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

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

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

Adama

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

Roslin

Roslin first became UK resident in 2023/24. She works in the UK but claims the remittance basis as she is domiciled in Caprica. She has a single contract of employment with Galactica Ltd. She works in Caprica for two months each year, for which she is paid directly into her Caprican bank account. She does not remit these earnings to the UK.

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

12. Explain when a company is a close company for corporation tax purposes. (2)

13. Briefly describe how the annual accounting scheme for VAT operates and the turnover conditions which must be satisfied to be eligible to join and continue to use the scheme. (2)

14. Gemma has been a sole trader for a number of years. She was very busy in early 2024 and therefore did not submit her income tax return for 2022/23 until 31 August 2024.

The tax return showed tax due of £4,000.

State the penalties that will apply in respect of the late filing of the return. (2)

TEST 3 ANSWERS

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

Total 3

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

$$PT = 12,570 \times 3/12 = £3,143 \text{ [1/2]}$$

$$UEL = 50,270 \times 3/12 = £12,567 \text{ [1/2]}$$

January: £1,750 earnings below the primary threshold = no NICs due **[1/2]**

February: £3,500 earnings to date less PT of £3,143 = £357 **[1/2]** x 12% = £43 **[1/2]**

March: £25,250 earnings to date:

$$UEL \text{ £12,567} - £3,143 \times 12\% = £1,131 \text{ [1/2]}$$

$$£25,250 - UEL \text{ £12,567} \times 2\% = £254 \text{ [1/2]}$$

$$\text{Total NICs} = 1,385 - \text{NICs already paid of } 43 = £1,342 \text{ [1/2]}$$

Total 4

3.			
	Dr Purchases (72,000 x 5/6)	£60,000	[1/2]
	Dr VAT control (72,000 x 1/6)	£12,000	[1/2]
	Cr Creditors	£72,000	[1/2]
	Dr Cash	£120,000	[1/2]
	Cr Sales (120,000 x 5/6)	£100,000	[1/2]
	Cr VAT control (120,000 x 1/6)	£20,000	[1/2]

Total 3

4.

	Total £	Apple £	Briar £	Clover £	
Y/e 31 December 2023	110,000				
Salary	(27,000)	15,000	12,000		[1]
	83,000				
PSR 45:30:25	83,000	37,350	24,900	20,750	[1]
	Nil	52,350	36,900	20,750	

Total 2

5. Earnings subject to tax:

$$£50,000 - (£50,000 \times 8\%) = £46,000 \text{ [1]}$$

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

Tutorial Note:

No NICs relief is given for employee pension contributions

Total 26. Late filing

Josh may be awarded a penalty point as the return was filed late (due date 7 August 2024). [½] He will not be liable to a penalty for late filing until four points have been awarded (and not expired). [½]

Late payment

The VAT due is paid more than 15 but less than 30 days late, therefore Josh will be subject to a penalty of $£8,000 \times 2\% = £160$. [1]

Total 27. 1 May 2023 – 31 July 2023 [½]

Company first comes into the charge to corporation tax when it acquires a source of taxable income, here, bank interest. [1]

Next period starts when company commences trade. [½]

1 August 2023 – 31 July 2024 [½]

12 month period expires before next accounting date, so accounting period ends after 12 months. [½]

1 August 2024 – 31 August 2024 [½]

Accounting period ends with the accounting date of the company. [½]

Total 4

8.

- 1) The maximum period of SPL is 50 weeks $[\frac{1}{2}]$ and the maximum period for which ShPP is paid is 37 weeks. $[\frac{1}{2}]$

Tutorial Note:

Statutory maternity leave must be taken for two weeks.

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

Total 4

9. Carmen could make a donation under the Gift Aid scheme. $[\frac{1}{2}]$ Under the Gift Aid scheme, Carmen would make a donation net of basic rate tax, i.e. she could give the charity £80, receiving basic rate relief at source, and the charity would claim back the basic rate tax of £20 from HMRC. $[\frac{1}{2}]$

As an employee, Carmen could make a donation under Payroll Giving if her employer operates a scheme. $[\frac{1}{2}]$ Under Payroll Giving, £100 would be deducted from her gross pay and she would again receive basic rate tax relief at source, via payroll. $[\frac{1}{2}]$

Total 2

10. Gift vouchers are taxable and should be reported on form P11D. $[\frac{1}{2}]$ They should be subjected to Class 1 NICs via the payroll. $[\frac{1}{2}]$

The Christmas jumpers are provided for a non-work reason as a seasonal gift $[\frac{1}{2}]$ and the cost of providing the benefit does not exceed £50. $[\frac{1}{2}]$ Therefore they are trivial benefits $[\frac{1}{2}]$ and no tax or NICs are due. $[\frac{1}{2}]$

The cost of provision of the Christmas Party does not exceed £150 per head and therefore is an exempt benefit. $[\frac{1}{2}]$ No tax or NICs are due. $[\frac{1}{2}]$

Total 4

11. As Adama performs some duties in the UK, his earnings must be apportioned $[\frac{1}{2}]$ to determine how much is attributable to UK duties and how much is attributable to duties performed outside the UK. Earnings attributable to UK duties will be subject to UK tax. $[\frac{1}{2}]$ Adama will not be subject to UK tax on his earnings for duties performed outside the UK. $[\frac{1}{2}]$

Roslin is eligible for Overseas Workday Relief $[\frac{1}{2}]$ as she is resident but non-domiciled and the tax year is one of 3 tax years following 3 consecutive years of non-residency. $[\frac{1}{2}]$ Her earnings can therefore be apportioned. $[\frac{1}{2}]$ The 10 month salary attributable to UK duties will be subject to UK tax. $[\frac{1}{2}]$ The two months' salary earned in Caprica will not be taxed in the UK as it is not remitted here. $[\frac{1}{2}]$

Total 4

12. A close company is a company which is resident in the UK [½] and controlled by either:
- five or fewer participators (shareholders); or [½]
 - any number of directors who are also shareholders. [½]

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

Total 2

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

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

Tutorial Note:

Credit would be given for all relevant comments.

Max 2

14. Initial penalty of £100 [½]

Daily penalties of £10 per day for 90 days (as the return was more than 3 months late). [½]

Additional penalty (as the return was more than 6 months late) of the greater of:

- $4,000 \times 5\% = 200$; or [½]
- 300

ie £300. [½]

Total 2

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

1. Annabel is a VAT registered trader and, during the quarter ended 31 March 2024, made the following transactions:

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

Where appropriate, all amounts are inclusive of VAT.

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

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

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

(4)

3. Sunan, a senior employee of City Ltd, is provided with a flat close to his workplace, as he often works long hours. City Ltd purchased the flat in 2021 for £170,000 and immediately spent £20,000 on improvements. Sunan moved into the flat on 1 April 2023, when its market value was £220,000. City Ltd pays for the Council Tax at a cost of £120 per month. Sunan contributes £100 per month for the use of the flat. The annual value of the property is £500.

Calculate the taxable benefit and Class 1A National Insurance Contributions arising on the provision of the flat to Sunan in 2023/24. (4)

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

5. Daniel and Eli have traded as a partnership for many years, making up accounts up to 30 June each year. Profits were shared in the ratio 60:40. On 1 March 2023, Michael joined the partnership. Profits are now shared 50:40:10 between Daniel, Eli and Michael, after a salary of £5,000 per annum for Michael. During the year ended 30 June 2023 the partnership made a tax adjusted profit of £96,000.

Show the allocation of the tax adjusted profits for the year ended 30 June 2023 between the partners. (3)

6. Naira has been a sole trader for many years. Her adjusted profits for the year ended 31 March 2024 are £80,000. She has no other sources of income.

Calculate Naira's income tax and National Insurance Contributions liability for 2023/24. (3)

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

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

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

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

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

9. Mark, a recent graduate, is paid £36,000 per annum by his employer. He is paid monthly, and contributes £10 per month to charity via Payroll Giving. He received a bonus of £1,000 in December 2023. Mark is in repayment plan 2.

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

2) Calculate the amount of Mark's student loan deductions for 2023/24.

(3)

10. Evie borrowed £10,000 from Snail Ltd, a close company in which she owns 40% of the shares, in the year ended 31 March 2021. She will repay the loan in the year ended 31 March 2024.

Explain the circumstances in which the repayment of the s.455 tax paid by Snail Ltd would not be repaid (or not repaid in full) even if the loan is repaid. (3)

11. Alfie plc operates a tax advantaged Company Share Option Plan. In 2021, one of its employees, Marissa, was granted options to buy 5,000 shares at their existing market value of £2 each.

The company's share price rose sharply and Marissa decided to exercise her options on 4 December 2023. The market value of Alfie plc shares at this point was £5.50.

- 1) **Calculate the employment income assessable on Marissa for 2023/24 in respect of the exercise of her options.**
- 2) **State how, and by when, the Income Tax and National Insurance Contributions due in respect of these options will be payable to HM Revenue & Customs.**

(3)

12. Norman's employer provided him with a company van and fuel card on 5 November 2023. The van emits 100g/km of CO₂. Norman uses the van for his job but is also allowed to use the van privately. He contributes £20 per month towards the cost of private fuel.

Calculate the benefit in kind assessable on Norman for 2023/24.

(2)

13. Cocktail Ltd provided the following benefits for its employees during 2023/24:

- 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 2023/24 and state by when they must be paid.

(3)

14. Plumb Ltd draws up accounts to 31 March each year.

It's taxable trading profits for the year ended 31 March 2024 were £250,000. It also had property business income of £15,000 and non-trading profits from loan relationships of £2,000. It received dividend income of £10,000.

Calculate Plumb Ltd's corporation tax liability for the year ended 31 March 2024 and state the due date for payment.

(2)

**TEST 4
ANSWERS**

1.

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

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

Total 4

2.

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

Total 4

3. Flat owned by employer for less than six years before the employee moved in. Benefit therefore calculated using original cost of £170,000 plus improvements of £20,000 = £190,000 [1]

	£	
Annual value	500	[½]
(190,000 – 75,000) [½] x ORI 2.25% [½]	2,588	
Less: Employee contributions: (£100 x 12)	(1,200)	[½]
Add: Council Tax (120 x 12)	1,440	[½]
Total taxable benefit:	<u>3,328</u>	
Class 1A NICs @ 13.8%	<u>459</u>	[½]

Total 4

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

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

Total 2

5.

	Total £	Daniel £	Eli £	Michael £	
Y/e 30 June 2023					
1.7.22 – 28.2.23(8 mths)					
96,000 x 8/12	64,000				[½]
PSR 60:40	<u>(64,000)</u>	38,400	25,600		[½]
	Nil				
1.3.23 – 30.6.23 (4 mths)					
96,000 x 4/12	32,000				[½]
Salary x 4/12	<u>(1,667)</u>			1,667	[1]
	30,333				
PSR 50:40:10	<u>(30,333)</u>	15,167	12,133	3,033	[½]
	Nil	53,567	37,733	4,700	

Total 3

6.

	£	
Profits	80,000	
Less: PA	<u>(12,570)</u>	[½]
	67,430	
Tax		
37,700 @ 20%	7,540	[½]
29,730 @ 40%	<u>11,982</u>	[½]
	19,432	
Class 4 NICs		
(50,270 – 12,570) @ 9%	3,393	[½]
(80,000 – 50,270) @ 2%	<u>595</u>	[½]
	3,988	
Class 2 NICs		
52 x 3.45	<u>179</u>	[½]

Total 3

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

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

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

Max 2

8.

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

Total 2

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

$£36,000/12 = £3,000$ per month less threshold of $£2,274 = £726 \times 9\% = £65$ per month (rounded down to nearest whole £) $\times 11 = £715$ [1½]

December: $£4,000 - £2,274 = £1,726 \times 9\% = £155$ [½]

Total student loan deductions: £870

Total 3

10. Repayment of s.455 tax will be restricted if within any period of 30 days: [½]

- one or more repayments totalling £5,000 or more are made by Evie [1]; and
- Evie borrows £5,000 or more. [1]

The initial repayment by Evie will be treated as a repayment of the later loan, rather than the original. [½]

Total 3

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

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

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

The tax and NICs will be payable to HMRC by 22 December 2023 if paid electronically (19 December otherwise). [½]

Total 3

12. Van benefit: $£3,960$ [½] + fuel benefit $£757$ [½] $\times 5/12$ [½] = $£1,965$.

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

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

Total 2

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

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

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

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

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

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

Total NIC = £2,674

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

The income tax and Class 1B NIC should be paid on or before 22 October 2024 if paying electronically (otherwise 19 October). [½]

Total 3

14.

	£	
Trading income	250,000	
Non-trading profits (from loan r/ships)	2,000	
Property business income	<u>15,000</u>	
TTP	<u>267,000</u>	[½]
£267,000 @ 25%	<u>66,750</u>	[½]
Due 1 January 2025		[½]
(excluding dividends from TTP)		[½]

Total 2

LONG QUESTIONS

1. Vino Ltd, a specialist wine company, pays for the cost of its employees travelling overseas to meet wine producers and attend international trade fairs. Vino Ltd also provides its employees with a hamper at Christmas worth £100. It also gives them chocolates at Easter worth £10 and provides charging facilities at work for employees' electric cars.

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

Miranda had her employment contract terminated by Vino Ltd in December 2023. Her contract entitled her to two months' pay in lieu of notice.

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

Requirement:

- | | | |
|----|--|------|
| 1) | Explain the Income Tax and National Insurance Contributions consequences of reimbursing business expenses. | (1) |
| 2) | Explain the Income Tax and National Insurance Contributions consequences of the provision of the Christmas hamper and the chocolates, and the provision of charging facilities, explaining how Vino Ltd can pay any tax due on behalf of its employees. | (4) |
| 3) | Explain the amount of the termination payment made to Miranda subject to Income Tax and National Insurance Contributions. | (4) |
| 4) | Explain Vino Ltd's reporting and payment requirements in respect of the amounts paid on termination. | (2) |
| | Total | (11) |

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

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

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

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

One other thing. As you know, before we appointed you as advisers, I was responsible for filing the company tax returns. I only got round to filing the tax return for the year ended 31 December 2021 on 15 August 2023. I have today received a late filing penalty notice but I have no idea whether the amount being charged is correct.

Most of the tax due for the year ended 31 December 2021 was paid on 1 January 2023 but the final balance was paid when I filed the return.

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

Requirement:

- 1) **Explain the procedure to follow before making payments to subcontractors. Your answer should include the rates of deduction that must be made.** (3)
 - 2) **Outline the contractor's responsibility to issue payment statements, including the penalties for non-compliance.** (2)
 - 3) **Explain how to calculate the total amount subject to deduction on the sample invoice.** (3)
 - 4) **Explain how VAT will be accounted for by the sub-contractors and Build Ltd.** (2)
 - 5) **State by when the corporation tax return for the year ended 31 December 2021 should have been filed and the due date for payment of the tax.** (1)
 - 6) **Explain how penalties for late corporation tax returns are calculated and state when a penalty should be paid in order to avoid an interest charge.** (5)
- Total (16)

3. Neville is employed as a computer consultant by Wizards Ltd, in which he owns 100% of the shares. Neville is the only employee. During 2023/24, he was engaged by Cauldron Ltd under a contract between Wizards Ltd and Cauldron Ltd. The contract had a value of £85,000. Cauldron Ltd is a small company for the purposes of the off-payroll working legislation.

During 2023/24, Neville received a salary from Wizards Ltd of £32,000 which was taxed via Pay As You Earn.

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

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

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

Requirement:

- | | | |
|----|---|------|
| 1) | Explain when a corporate client will qualify as small for the purposes of the off-payroll working legislation. | (3) |
| 2) | Calculate Neville's deemed employment income and his employer's National Insurance Contributions for 2023/24. | (4) |
| 3) | Explain three factors that will be considered under the economic reality test to determine if Neville is an employee or an independent contractor of Cauldron Ltd. | (6) |
| 4) | State two terms for the employer and two terms for the employee which will be implied by common law into a contract of employment. | (4) |
| | Total | (17) |

4. Assume that today's date is 1 November 2023.

Holly Mae is going to start up her own business supplying a variety of computer games, accessories and spare parts. Holly is starting the business as a sole trader and plans to start trading from 1 December 2023. She has approached you for some help in relation to her obligations for income tax and VAT. All of Holly's sales and purchases will be standard rated for VAT purposes.

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

In addition, Holly is unsure of the VAT registration requirements and has asked you to advise her on the differences between voluntary and compulsory registration. Her turnover is likely to grow substantially within the first three months of operation and she estimates that by 25 February 2024 it will be in the region of £85,000.

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

Holly's customers will be mainly based in Great Britain (GB), but she has recently negotiated a contract with a large business based in Italy to supply them with printer cartridges every month, starting from 1 March 2024. Some of Holly's supplies will be imported into GB from Canada for onward sale to GB customers.

Requirement:

- | | |
|---|------|
| 1) Explain by when Holly must notify HMRC for income tax purposes that she has started to trade. | (2) |
| 2) Explain the deadlines for filing income tax returns and state when the tax liability for 2023/24 will be due for payment. | (3) |
| 3) State how long records must be retained by a self-employed individual for income tax purposes. | (1) |
| 4) Explain when Holly may or must register for VAT and from which date her registration will commence. | (3) |
| 5) Briefly outline the record keeping requirements for VAT. You should include two examples of the types of records which Holly must keep. | (2) |
| 6) Describe how and when Holly must file her VAT returns and pay any VAT due. | (3) |
| 7) State six items of information which must be contained in the sales invoices of a VAT registered trader. | (3) |
| 8) Briefly explain how the import of goods from overseas into GB and the export of goods from GB to the overseas customer will be treated for VAT purposes. | (3) |
| Total | (20) |

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

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

Quarter ended 30 September 2024

For the quarter ended 30 September 2024, the following activity took place:

Income

	<u>Total Turnover</u>	<u>Taxable</u>	<u>Exempt</u>
	£	£	£
Quarter ended 30 September 2024	55,000	35,500	19,500

Expenses

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

Additional items

On 1 July 2024, Teresa received £1,000 as a part payment for an outstanding debt. Teresa had supplied standard rated services to Timble Ltd which amounted to £1,800 inclusive of VAT in October 2023, on 30 day payment terms. Payment had never been made so Teresa wrote off the amount during the quarter ended 30 June 2024.

In addition to the above purchases:

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

Teresa has been very busy and did not file her 2022/23 online income tax return until 1 July 2024. She also paid the balancing payment for 2022/23 and the first payment on account for 2023/24 on 1 July 2024. She would like an explanation of the interest and penalties that she has been charged as a result.

Requirement:

- | | | |
|----|---|-------------|
| 1) | Calculate the amount of input tax recoverable by Teresa for the quarter ended 30 September 2024, using the standard method of partial exemption. Ignore the additional items and the simplified partial exemption tests. | (3) |
| 2) | Explain what effect the additional items will have on the figure of recoverable input tax calculated above. | (5) |
| 3) | Explain the conditions which need to be met in order to claim bad debt relief. | (5) |
| 4) | State the due date for the 2022/23 income tax return and the due date(s) for the balancing payment for 2022/23 and the first payment on account for 2023/24. | (1) |
| 5) | Explain how any interest and penalties that Teresa has been charged will have been calculated. | (4) |
| | Total | (18) |

6. Scott has been an employee of The Grapevine Ltd, an unlisted company, for the past 10 years. Scott has a salary of £70,000 per annum and in 2023/24 he was provided with the following:
- 1) A company car registered with a list price of £15,000, which was purchased for £12,000. The car has a diesel engine and CO₂ emissions of 70g/km. It meets the RDE2 standard. Scott was required to make a £1,000 contribution towards the cost of the car and £50 is deducted from his salary each month towards the private use of the vehicle. As he is a frequent traveller, he is provided with a fuel card which he uses to purchase all of his diesel. As he pays towards the private use of the vehicle, The Grapevine Ltd does not require him to pay towards the cost of fuel.
 - 2) A company mobile phone on which he is permitted to make personal calls. The mobile phone contract is £250 per annum and his phone bill was £500.
 - 3) A season ticket for the car park near the office at a cost of £2,000 per annum.
 - 4) Gift vouchers of £500 in recognition of his long service with the company.
 - 5) Gym membership at a local health club costing £30 per month.
 - 6) Bonus of shares in The Grapevine Ltd, worth £5,000.
 - 7) Employer pension contributions totalling 5% of his salary. Scott is required to contribute a further 5% of his salary.

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

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

Requirement:

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

Total (20)

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

Felix Oliver

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

Aoife Hassan

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

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

Mae Emmett

Mae Emmett is a partially exempt trader who made the following supplies for the year ending 31 March 2024:

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

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

Requirement:

- 1) Explain how the import and export of goods by Felix Oliver to and from other countries including Northern Ireland will be treated for VAT purposes. (5)
- 2) Explain the place of supply of services by Aoife Hassan to the salon in Florida. (1)
- 3) Explain the VAT treatment of the services provided by Aoife Hassan to private clients in Florida. (1)
- 4) Describe the simplified partial exemption tests and show how they would apply to Mae Emmett for the year ending 31 March 2024. (4)
- 5) Calculate the amount of VAT recoverable by Mae Emmett for the VAT year ending 31 March 2024 using the standard method of partial exemption. (4)
- 6) List three factors which the Association of Taxation Technicians' Professional Rules and Practice Guidelines state Baines & Co will need to consider before accepting new clients. (3)

Total (18)

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

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

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

Payments to subcontractors

During 2023/24, Quality Build Ltd subcontracted a specialist piece of construction work to another company, Ace Ltd. Ace Ltd has never registered as a subcontractor with HM Revenue & Customs.

The invoice from Ace Ltd, received on 2 March 2024, shows the following:

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

Quality Build Ltd paid the invoice on 4 May 2024.

The domestic reverse charge applies.

Late return

Quality Build Ltd's monthly contractor return due on 19 May 2023 was filed late, due to an oversight. It was eventually filed on 2 December 2023. £8,000 of deductions were reported on the return.

Annual events

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

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

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

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

Quality Build Ltd has entered into a PAYE Settlement Agreement with HM Revenue & Customs in respect of staff entertaining costs.

Expenses

Quality Build Ltd reimburses employees for genuine business travel expenses.

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

Requirement:

- 1) Calculate the amount of tax deductible by Quality Build Ltd from the payment made to Ace Ltd and state the due date for its remittance to HM Revenue & Customs. Your answer should briefly explain how you have calculated the amount due. (4)
 - 2) Explain what information Quality Build Ltd must provide to Ace Ltd under the Construction Industry Scheme, and by when this must be provided. (2)
 - 3) State the penalties payable in respect of the late return. (3)
 - 4) Briefly explain any other potential consequences of the late Construction Industry Return made by Quality Build Ltd. (2)
 - 5) Calculate the Income Tax and Class 1B National Insurance Contributions payable for 2023/24 under the PAYE Settlement Agreement and state the due date. Your answer should briefly explain how you have calculated the amount chargeable. (4)
 - 6) Briefly explain how the reimbursement of business travel expenses should be treated for Income Tax and National Insurance Contributions purposes. (1)
 - 7) Explain the duty of confidentiality owed to clients by a member of the Association of Taxation Technicians. (4)
- Total (20)

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

Tyrion

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

In April 2023, he was sent on a secondment to the UK for two years. Under the terms of his secondment, he will spend two months a year working in Casterly Rock and 10 months a year working in the UK. All his earnings will continue to be paid by Thrones Ltd into his Casterly Rock bank account. Tyrion will claim the remittance basis for 2023/24.

Bronn

Bronn, who is not domiciled in the UK under general law, was resident in the UK in 2023/24. He was born in Casterly Rock and has been resident in the UK since 2009/10, when he was first employed by Thrones Ltd. He had not been resident in the UK before his employment with Thrones Ltd.

Eddard

In April 2023 Eddard, a UK employee earning £70,000 per annum, was sent to work overseas in King's Landing (non-UK) for nine months. Thrones Ltd provided him with a flat in King's Landing which cost £1,000 per month and Eddard met his own subsistence costs of £500 per month.

During 2023/24, Thrones Ltd also paid for two return flights from the UK to King's Landing for Eddard's wife and their daughter, Sansa. The return flights cost £200 per person. Sansa had her 18th birthday during her second visit to King's Landing.

Joffrey

Thrones Ltd is considering terminating Joffrey's contract of employment. He is employed solely in the UK.

Requirement:

- 1) Briefly explain what is meant by the term 'domicile' and how domicile is acquired. You are not required to discuss deemed domicile. (4)
 - 2) Explain whether Tyrion can claim Overseas Workday Relief and, if so, how his earnings would be subject to UK Income Tax. (3)
 - 3) Explain whether Bronn is deemed domiciled in the UK in 2023/24 and state the income tax consequences if an individual is deemed domiciled in the UK. (3)
 - 4) Calculate Eddard's employment income for 2023/24. You should briefly explain the treatment of the expenses incurred in respect of the assignment. (5)
 - 5) Explain four ways in which Joffrey's contract of employment could be terminated without any breach of contract arising. (4)
- Total (19)

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

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

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

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

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

Requirement:

Draft a response to each of the directors' questions.

Marks will be awarded as follows:

- 1) Enterprise Management Incentives scheme. (4)
- 2) Save As You Earn option scheme. (4)
- 3) Procedure for the allotment and issue of shares. (4)

Total (12)

ANSWERS TO LONG QUESTIONS

1. VINO LTD

1)

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

Total 1

2)

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

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

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

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

Max 4

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

3)

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

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

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

Tutorial Note:

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

Max 4

4)

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

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

Total 2

Total for question 11

2. BUILD LTD**1) Payments to subcontractors**

- Before paying a subcontractor for the first time, a contractor must verify the subcontractor with HMRC. [$\frac{1}{2}$]
- This is done by way of an online verification service. [$\frac{1}{2}$]
- The contractor will need to provide the name of the sub-contractor, the unique taxpayer reference and the national insurance/company registration number. [$\frac{1}{2}$]
- HMRC will inform the contractor of the rate, if any, of deduction that should be made from the payment. [$\frac{1}{2}$]
- If a subcontractor is not registered with HMRC, a deduction must be made at the higher rate (30%) from the payment. [$\frac{1}{2}$]
- Subcontractors registered with HMRC can either be paid gross (no deduction required) or under the standard rate 20% deduction. [$\frac{1}{2}$]

Total 3**2) Payment statements**

- Where a deduction has been taken from a payment, a payment statement must be provided to the subcontractor. [$\frac{1}{2}$]
- At least one payment statement must be issued each tax month. [$\frac{1}{2}$]
- The statement must be issued within 14 days of the end of the month to which it relates, i.e. by the 19th of each month. [$\frac{1}{2}$]
- A penalty of up to £300 may be levied if such statements are not provided, plus a further penalty of up to £60 per day for continuing failure. [$\frac{1}{2}$]

Total 2**3)**

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

Total 3

4) VAT

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

Total 25) Due Dates

- The return for the year ended 31 December 2021 should have been filed by 31 December 2022. [½]
- The tax due should have been paid by 1 October 2022. [½]

Total 16) Penalties for Late Corporation Tax Returns

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

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

3. NEVILLE

1)

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

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

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

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

Max 3

2)

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

Working

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

Total 4

3)

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

- Extent of integration into the business. This looks at whether someone is “part and parcel” of an organisation, rather than being merely accessory to it.
- Provision of equipment. A self-employed person is more likely to provide their own equipment whilst an employee is more likely to be provided with equipment.
- Work routines. An employee is likely to be required to work specific hours and attend a place of work on a regular basis, whereas a self-employed individual is free to work as and when they wish.

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

Max 6

Tutorial Note: Credit would be given for all relevant factors.

4)

Employee

Any two from the following:

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

[1 each]

Max 2

Employer

Any two from the following:

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

[1 each]

Max 2

Total for question 17

4. HOLLY

1)

Holly must notify HMRC within 6 months of the end of the tax year in which she becomes chargeable. **[1]** As she will start to trade in 2023/24, she must notify HMRC by 5 October 2024. **[1]**

Total 2

2)

If Holly files a paper return, it should be filed by 31 October following the end of the tax year. **[1]** If she completes an online return it should be filed by 31 January following the end of the tax year. **[1]** However, returns can be filed 3 months following the date of issue of the return/notice to file if later than these deadlines. **[1]**

The tax liability for 2023/24 will be due for payment by 31 January 2025. **[1]**

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

3)

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

Total 1

4)

Holly must register for VAT if her turnover of VAT taxable goods and services supplied within the UK exceeds the registration threshold. **[½]** There are two tests, first if at the end of any month turnover for the previous 12 months (or since commencement if later) is more than the current registration threshold of £85,000, **[½]** or if she expects turnover in the next 30 days alone will exceed that figure. **[½]**

Assuming the historic test applies, Holly must notify HM Revenue & Customs of her liability to register within 30 days from the end of the month in which the limit is exceeded. **[½]** Registration will be effective from the start of the month following this 30 day period, **[½]** so in Holly's case she will be registered from 1 April 2024. **[½]**

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

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

5)

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

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

She has an obligation to preserve:

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

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

Max 2

6)

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

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

Max 3

7)

VAT invoices must contain:

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

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

Max 3

8)

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

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

Total 3

Total for question 20

5. TERESA

1)

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

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

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

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

Total 3

2)

Additional items:

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

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

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

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

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

[½ for totalling]**Total 5**

3)

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

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

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

Max 5

4)

The due date for the 2022/23 online income tax return was 31 January 2024. [½]

The balancing payment for 2022/23 and the first payment on account for 2023/24 were also due on 31 January 2024. [½]

Total 1

5)

Interest will be charged on the balancing payment for 2022/23 and the first payment on account for 2023/24 from the due date to the date of payment ie from 31 January 2024 to 1 July 2024. [1]

A late payment penalty will be charged in respect of the balancing payment for 2022/23 as the tax was outstanding more than 30 days after the due date. [1]

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

A late payment penalty will not be charged in respect of the late payment on account for 2023/24. [½]

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

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

Max 4**Total for question 18**

6. SCOTT

1)

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

WorkingsW1) Car

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

Relevant %

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

19% x 14,000

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

W2) Fuel

27,800 x 19% = £5,282 [½]

W3) Shares

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

Tutorial Note:

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

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

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

Total 9

2)

The employer must provide details of the Class 1A NICs on form P11D(b) [½] which must be sent to HMRC by 6 July 2024. [½] The supporting information concerning the benefits must be reported on Scott's form P11D, a copy of which must be filed online with HMRC by the same date. [½]

Class 1A NICs are payable by 22 July 2024 if paying electronically (19th otherwise). [½]

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

Total 3

3)

The employer must carry out a basic earnings assessment to assess the amount of tax relief that is due on the provision of the vouchers. [½] The employer must estimate Helen's relevant earnings from her employment for 2023/24 [½] which will include her salary and any benefits to which she is contractually entitled. [½]

Max 1**Tutorial Note:**

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

4)

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

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

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

Total 4

5)

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

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

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

Total 3**Total for question 20**

7. BAINES & CO.

1)

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

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

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

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

Total 5

2)

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

Total 1

3)

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

Total 1

4)

The simplified partial exemption tests are as follows:

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

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

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

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

Total 4

5)

Applying the standard method of partial exemption:

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

[1 if rounded correctly ½ for 71.26%]

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

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

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

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

Total 4

6)

Any **three** from:

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

Tutorial Note:

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

[1 per point]

Max 3

Total for question 18

8. QUALITY BUILD LTD

1)

Amounts subject to deduction:

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

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

Plant hire is not subject to deduction. [½]

Materials costs are not subject to deduction. [½]

The deduction should have been remitted to HMRC on or before 22 May 2024 if paid electronically (19th otherwise). [½]

Total 4

2)

As Ace Ltd is paid under deduction, Quality Build Ltd will be required to provide a statement to Ace Ltd. [½] The statement must be provided by the 19th of the month following the tax month of payment, i.e. 19 May 2024. [½] The statement must show Quality Build's name and tax reference, details of the payments made, the cost of materials incurred by the subcontractor, and the deductions made. **[1]**

[Credit given for any other relevant points]**Total 2**

3)

Automatic penalty for late return: £100 [½]

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

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

Total penalties = £700

Total 3

4)

Quality Build Ltd holds gross payment status. [½] Each year, HMRC carries out a 'scheduled review' of all subcontractors holding gross payment status. [½] The review checks whether the subcontractor is up to date with all its tax obligations. [½] As Quality Build Ltd has submitted one of its returns more than 28 days late, HMRC may withdraw gross payment status. [½]

[Credit given for any other relevant points]**Total 2**

5)

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

Directors' year end dinner:

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

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

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

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

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

Total tax and Class 1B NICs: £1,345

Tax and Class 1B NICs are payable to HMRC on or before 22 October 2024 if paid electronically [½] (19th October otherwise).

Total 4

6)

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

Max 1

7)

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

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

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

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

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

[½ for each relevant point]

Max 4

Tutorial Note:

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

Total for question 20

9. THRONES LTD

1)

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

An individual can acquire a domicile in three ways:

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

Max 4

2)

Tyrion will become resident in the UK during 2023/24 as he will spend more than 182 days in the UK. [1]

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

Under OWR, his duties can be apportioned between UK duties and non-UK duties. [½] His UK duties will be taxed on a receipts basis [½] and his non-UK duties will be taxed on a remittance basis. [½] His earnings will be apportioned based on the number of UK and overseas workdays in the 2023/24 tax year. [½]

Max 3

3)

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

Bronn has only been resident for 14 of the 20 tax years prior to 2023/24 (2023/24 is his 15th year of residence) and therefore is not deemed domiciled in the UK in 2023/24. [1]

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

Total 3

4)

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

Explanations:

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

Max 5

5)

A contract of employment can be terminated without breach of contract in one of the following ways:

1. By notice being given (this cannot be less than the statutory period)
2. Otherwise in accordance with its terms, for example the employment contract may provide for a payment in lieu of notice
3. By the passage of time, when fixed-term contracts expire at the end of the agreed period
4. By mutual agreement, where the parties to the contract agree to end their relationship at any time and upon any terms by way of a "compromise agreement"
5. By frustration, where the contract becomes impossible to perform, for example on death, ill health, imprisonment or prolonged absence
6. By summary dismissal with cause, where an employer may dismiss an employee instantly if justified in doing so, for example for gross misconduct by the employee, such as theft.

[Essential Law for Tax Practitioners Chapter 11 – section 11.7]

[1 for each point]**Max 4****Total for question 19**

10. WOLF LTD

Enterprise Management Incentives Scheme

- There is no requirement to offer the scheme to all employees; it can be offered to selected employees only. [1]
- Discounts can be offered on the agreed option price, [½] however this will lead to a tax charge on the exercise of the option. [½]
- Providing that the option is granted at market value [½] and the exercise takes place within 10 years of grant [½] there will be no tax due on the exercise of the options.
- The company should register the scheme with HMRC [½] and notify HMRC of the details of the option agreement within 92 days. [½] From 6 April 2024, the deadline will be extended to 6 July following the end of the tax year.

Total 4

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

Save As You Earn option scheme

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

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

Total 4Procedure for the allotment and issue of shares

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

**[1 each]
Max 4**

[Essential Law for Tax Practitioners Chapter 18 – section 18.3]

Total for question 12