



Association of Taxation Technicians

Examination

May 2007

PAPER 6 – PART II

BUSINESS COMPLIANCE

TIME ALLOWED – 3 HOURS
(for Part I and Part II)

- You are required to answer **all** questions in Part I (printed separately) and Part II.
- The maximum number of marks for each question in Part II is shown in brackets.
- For Part II, start each answer on a new sheet of paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Marks are specifically allocated for good presentation.

1. On 1 July 2006, John Weston was appointed managing director of Trafford Sails Ltd, a sail manufacturing company based in Aberdeen, Scotland.

Prior to the appointment, John had been a self-employed consultant based in Plymouth, England.

John was re-imbursed by the company for the following relocation expenses in the 2006/07 tax year:

	£
Removal costs from Plymouth to Aberdeen	6,000
Legal expenses in connection with the purchase of a house in Aberdeen	1,200
Stamp duty payable on the purchase of the Aberdeen property	3,500

John's remuneration package included the following benefits in the 2006/07 tax year:

- Free mooring at the company's boatyard for his private yacht
 - Market value £100 per month
 - Marginal cost to Trafford Ltd £50 per month

- Subscription to the Royal & Marine Aberdeen Yacht Club
 - £650 per annum paid 1 July 2006

John's starting salary was £65,000 per annum payable in equal monthly payments on the last day of the month.

On 8 August 2006, the company dismissed Barry Hall, the IT manager, without notice. Barry's employment contract provided for three months' notice on dismissal. Barry was provided with the following termination package:

Pay in lieu of notice	£29,000
Provision of a car for 6 months, this benefit was valued at	£1,200

As Trafford Ltd's tax adviser, you are required to write a letter to the company's financial director explaining:

- 1) **The benefits to be included on John's P11D for 2006/07.** (6)
- 2) **The administration requirements for the company PAYE scheme for John's commencement as an employee.** (3)
- 3) **How much PAYE and NIC must be deducted in respect of the salary payment made to John on 31 July 2006.** (6)
- 4) **How much of Barry's termination package will be treated as taxable income, when will this tax be payable and by whom.** (4)

Total (19)

2. You are the in-house tax manager of Yetty Ltd, a UK-based internet search engine provider listed on AIM (Alternative Investment Market).

At a recent board meeting, the financial director suggested the company should consider setting up a share scheme that will allow the company to reward its employees.

You are required to prepare a memorandum for the next directors' board meeting covering the following topics:

- 1) **The key features of the different types of HM Revenue & Customs approved share schemes.** (9)
- 2) **A recommendation of the appropriate scheme assuming the company decides it wants to award free shares to all its employees.** (1)
- 3) **A brief outline of the general issues to cover in setting up the recommended scheme.** (5)
- 4) **For your recommended scheme, the tax consequences for an employee on leaving the company.** (2)

Total (17)

3. Frank opened a shop selling DIY equipment on 30 June 2006. It is now January 2007 and Frank has not registered for VAT. In his first six months of trading, the shop takings were as follows:

	£
July 2006	15,000
August 2006	20,000
September 2006	21,500
October 2006	19,500
November 2006	25,000
December 2006	26,000

You are required to:

- 1) **Explain when Frank should have applied to register for VAT and from what date his VAT registration will take effect.** (3)
- 2) **In the six months prior to the shop opening, Frank incurred expenditure of £20,000 plus VAT of £3,500 on shop fittings. Explain whether any of this pre-registration input VAT is recoverable.** (3)
- 3) **Many small businesses decide to register before the value of their supplies exceeds the VAT registration threshold. Give three advantages of registering for VAT voluntarily.** (3)
- 4) **In order to make a claim for input tax recovery, Frank must hold a VAT invoice for the expense. What information is required on a VAT invoice?** (5)

Total (14)

4. United International plc is a multinational company based in the UK. It has recently had a re-organisation of personnel and you have been asked to explain the UK taxation and legal implications in connection with the following employees:

- 1) Tom Jones is UK resident and domiciled. On 5 July 2007 he will be moving to Paris, France to work for the French subsidiary. He is likely to be there for four months, but will continue to receive his pay from the UK company. While in France he will live rent free in a flat rented by the French company, but will return to the UK each weekend to be with his family, who are remaining in the UK. The UK company will be paying his travel expenses. All his work will be performed in France. As it will be his elder son's 21st birthday in September 2007, it has been agreed that to celebrate the occasion Tom's wife and two sons (the younger son is 15) will travel to France to spend two weeks with him in the flat. During this time, Tom will take two weeks annual holiday. The cost of travel will be £200 per person and the rent paid for the flat is £400 per week. The company is paying the cost of travel and the accommodation.
- 2) Roberto Romero is domiciled and resident in Mexico. On 5 December 2007, he will be coming to the UK to take up a position at head office. For the first three months, the company will pay rent on a flat for Roberto to live in, but after that time it will be his responsibility to find accommodation. The company will pay his travel costs from Mexico.

The company has agreed the terms of employment with Tom and Roberto by letter, but is concerned that this may not cover all of their legal obligations.

You are required to:

- 1) **Outline the company's obligations to provide written details of the terms of employment.** (5)
- 2) **For both of the above employees, explain the UK tax implications of the proposals.** (5)

Total (10)