



Association of Taxation Technicians

Examination

November 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. Murari Building Ltd is a construction company which commenced trading in 2007.

You are the tax manager at the company's accountants and you recently received a telephone call from John Harcourt, a director of the company regarding the Construction Industry Scheme (CIS). John also enquired if some of the company's sub-contractors would be considered employees by HM Revenue & Customs.

You are required to write a letter to John Harcourt answering the following questions:

- 1) **As a sub-contractor under CIS, how can we qualify to be paid gross by contractors?** (8)

- 2) **Please show how the tax deduction is calculated for the following payment to a sub-contractor who has been verified as a "20% net sub-contractor":**

	£	
Labour element	250	
Materials	150	
VAT	70	(2)

- 3) **Please provide a set of questions that we can use to help us determine if sub-contractor engagements are employment or self-employment.** (5)

Total (15)

2. Mark Hayden has been engaged by a large insurance company since June 2003 as their Health and Safety manager. The engagement has always been via Hayden Safety Ltd, Mark's personal service company.

Your firm has recently been appointed to act as his tax adviser and you have advised him that the engagement falls under IR35.

In the year ended 5 April 2007, Hayden Safety Ltd had the following transactions:

Income

Mark's services	£4,000 per month
Reimbursement of Mark's home to office travel expenses	£2,850 for the year

Expenses

Professional indemnity insurance	£850
Salary paid to Mark (gross)	£2,000 per month
Mark's professional subscriptions	£150
Business mileage claim at 40p per mile	£600

Mark has recently written to you to enquire whether he would be eligible to claim Working Tax Credit. He has also requested an explanation of the Statutory Sick Pay scheme.

You are required to:

- 1) **Write a letter to Mark providing him with:**
 - (a) **A calculation of the 2006/07 deemed payment and employer's National Insurance Contributions payable on the deemed payment.** (6)
 - (b) **A summary of the basic requirements for eligibility to receive working tax credit.** (3)
 - (c) **A brief explanation of the Statutory Sick Pay scheme.** (2)
- 2) **Prepare a memo to your tax partner advising him/her of the key obligations of a member in practice in relation to money laundering.** (4)

Total (15)

3. Following a recent advertising campaign, you have been appointed tax adviser for a large international construction company. The company is resident in the UK for tax purposes.

You have received the following e-mail from the human resources director of the company:

“I have a number of queries regarding taxation of employees that I would be grateful if you could answer:

We have a number of employees who work partly in and partly outside the UK. Can you please advise me whether their earnings are taxable in the UK? I believe all the employees are resident in the UK but I am unsure if they are ordinarily resident in the UK or domiciled in the UK.

We have a number of engineers who are resident and ordinarily resident in the UK, but whose duties keep them abroad for three months at a time. We reimburse the cost of their spouses and children visiting them three times in any calendar year. Can you advise if these reimbursements are treated as taxable earnings for the employees?

Please let me have your thoughts on the above issues”.

You are required to:

- 1) **Provide a response to this e-mail answering the questions raised.** (10)
- 2) **Briefly summarise the specific guidelines applicable to advertising in the Association of Taxation Technician’s Professional Rules and Practice Guidelines.** (5)

Total (15)

4. Annabel has purchased a bed and breakfast business which she will operate with effect from 1 January 2007 and she has registered for VAT with effect from this date. Annabel has applied to use the flat rate scheme to calculate her VAT liability.

The published flat rate percentage for the 'hotel or accommodation' trade sector is 9.5%.

Annabel's trading figures for the quarter ended 31 March 2007 are as follows:

Trading income:	£15,000 including VAT
Expenses:	£5,000 including VAT of £1,500

In her second quarter of trading Annabel plans to invest in the business. She will spend £5,000 plus VAT refurbishing the kitchen.

You are required to prepare a memorandum for discussion with the client covering:

- 1) **The rules and benefits of the flat rate scheme.** (8)
 - 2) **The way in which turnover and expenses are shown in the accounts.** (2)
 - 3) **The figures to be included in the VAT return for the quarter ended March 2007.** (2)
 - 4) **The due date for submission of the March 2007 return and payment of any tax due.** (2)
 - 5) **The rules applicable to the expenditure in the second quarter.** (1)
- Total (15)