



**Association of Taxation Technicians**

## **Examination**

November 2007

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**PAPER 6**

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**BUSINESS COMPLIANCE**

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ANSWERS (without marks)

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Paper 6 November 2007

A1

1/6/06 – 31/3/07 = 10 months

166g/km = 20%

15,000 x 20% = 3,000 x 10/12 = £2,500 Car benefit

14,400 x 20% x 10/12 = 2,400 Fuel benefit

A2

Annual rental > annual value, so benefit in kind based upon rent paid

Benefit in kind = 12 x 1,500 = £18,000 assessable on Tim Bruling

No employee's NIC

Class 1A NIC due by company at 12.8% \* benefit = 12.8%\*18,000 = £2,304

A3

Class 1 primary contributions = (12 x 2,100 – 5,035)\*11% = £2,218

Class 1 secondary contributions = (12 x 2,100 – 5,035)\*12.8% = £2,581

If the total primary Class 1 and Class 2 contributions are less than the maximum Class 4 contributions payable, the Class 4 contributions payable are restricted to this difference

A4

The return was due to be filed on 19 May 2007.

Penalty for late filing charged at £100 per month (or part) multiplied by X "Units" of 50 employees (or part) = 2 months late for 2 units = £100 x 2 x 2 = £400

A5

Taxable element = £26,000 + £13,000 – 30,000 = £9,000

The payments are not liable to either employee's or employer's NIC

Tax is due via the PAYE scheme of the employer. If payment is made prior to the issue of form P45, tax is deducted using the tax code in issue. If paid after the issue of form P45, tax is deducted at basic rate only with any higher rate tax dealt with via self assessment.

A6

Payroll giving scheme

Tax relief is given at source by treating the donation as a reduction in the gross salary payment for the PAYE period.

The employer pays the gift to a government-approved Payroll Giving agency, which then pays the money on to the chosen charity.

Gift Aid

A gift of £500 under gift aid is deemed to be made net of basic rate tax. Higher rate relief can be claimed if applicable via the self assessment system or via the tax code.

The charity can reclaim the basic rate tax deemed to have been deducted at source.

A7

You can, if you wish, choose to leave the additional State Pension scheme (S2P) and join a private pension scheme. If you choose to contract out (e.g. by joining your employer's contracted-out occupational pension scheme) both you and your employer will pay reduced rate National Insurance contributions.

A8

Employees must:

- be employed by the company or its qualifying subsidiary.
- work a minimum 25 hours a week or at least 75% of their working time
- not hold a material interest (30% of the ordinary share capital) in the company.

A9

There are no income tax consequences at exercise as the option was granted more than three years before.

Capital Gains Tax will be payable on the sale based upon the sale proceeds less the amounts paid for the grant and exercise of the option.

A10

Recovery percentage is:

$\frac{\text{Taxable supplies} \times 100}{\text{Total supplies (less land transactions)}}$

$$\frac{20,000 + 15,000}{80,000 - 20,000} \times 100$$

= 59 % (58.33 rounded up to next whole number)

The recoverable amount of residual input tax is £30,000 x 59% = £17,700.

A11

Output tax:

20 January – payment received (7/47 x £17,625)	2,625
1 February – payment received (7/47 x £2,350)	350
3 March – payment received (7/47 x £5,875)	<u>875</u>
Total output tax	3,850
Invoice 21 issued – no VAT to pay as no cash received	-

Input tax:

2 Feb – cash purchase	350
14 Feb - invoice received but no payment made	
Total input tax	350
VAT liability (3,850 – 350)	3,500

A12

May de-register if:

- i) Cease to make taxable supplies
- ii) HMRC satisfied that supplies in next 12 months will be below de-registration threshold of £59,000).

Output VAT must be accounted for on goods held at de-registration unless no input tax was recovered on purchase or total VAT due would be less than £1,000

A13

Company limited by shares – liability of a member is limited to the amount, if any, unpaid on the member's shares.

Company limited by guarantee – liability of a member is limited to the amount that they undertake to contribute in the event of a winding up.

A14

Act in the interests of the company (and not for some private purpose);

Exercise a reasonable level of care and skill on behalf of the company;

Adhere to a strict code of practice in any dealings with the company;

A15

Only employees are given protection against unfair dismissal and enjoy other rights under employment legislation;

Only employees can make their employers liable for their wrongful acts as employees (vicarious liability);

Only employees are preferential creditors on the insolvency of their employers;

Only employees are entitled to jobseeker's allowance, statutory maternity pay, statutory redundancy pay, sick pay, industrial injury and certain other benefits;

Employees' tax is deducted through PAYE and charged as employment income;

Many of the statutory health and safety provisions apply only to employees and not to independent contractors.

Q1

ABC & Co  
High Street  
Newtown

20 November 2007

Dear John

### **Construction Industry Scheme**

Further to our recent telephone conversation, you will find the following advice useful.

#### **Gross Payments**

To qualify to be paid gross, you must pass three tests set by HM Revenue & Customs. The tests are as follows:

#### **The Turnover Test**

The company must show a construction turnover of at least £30,000 for each director in the 12 months before application is made. This is the standard test.

There is an alternative turnover test where the company needs to show turnover of £200,000 in the 12 month period.

#### **The Compliance Test**

The company and the directors in the 12 months before application is made must:

- be up to date with all tax returns
- have paid all tax & NIC (including payroll PAYE & CIS deductions) by the due dates

#### **The Business Test**

The company must show it carries on construction work in the UK and has a bank account.

You will need to set out compliance with these tests in the relevant HM Revenue & Customs' application form.

#### **Sub-contractor Payment**

To give you an indication of how tax is deducted for CIS, I have shown below an example deduction:-

Goods & services provided by sub-contractor-

Labour	£250
Materials	£150
VAT	<u>£ 70</u>
Gross Invoice	£470

20% deduction is taken from the Labour-only element and before VAT is applied.

Therefore payment to make to sub-contractor = 470 – 20% of £250 (£50) = £420.

#### **Employment v Self-employment**

You will find the following questions useful to determine if an engagement is either self-employment or employment:-

A "YES" to these questions probably shows an employment engagement:

- Are they required to do the work themselves?
- Do you tell them what to do, when to do it & how to do it?
- Do they work fixed hours?
- Do you pay them an hourly rate?
- Do they get overtime?

A "YES" to these questions probably shows a self-employment engagement:

- Do they have helpers?
- Do they risk their own money and have to correct unsatisfactory work at their own expense?
- Do they provide their own tools and fixed price quotes?
- Do they set when and how they will do the work?
- Do they regularly work for other people?

Please do not hesitate to contact me should you have any queries regarding the above.

Yours sincerely

A A

Q2

ABC & Co  
High Street  
Newtown

20 November 2007

Dear Mark

**2006/07 deemed payment**

Based upon the information available to me, I calculate you have the following deemed payment for 2006/07:

Payments & benefits received in 2006/07 = $4,000 \times 12 + 2,850 =$	£50,850
Less – 5% deduction =	£(2,543)
Employment related expenses = $850 + 150 + 600 =$	£(1,600)
Secondary Class 1 paid in year = $(12 \times 2,000 - 5,035) \times 12.8\% =$	£(2,428)
Salary paid in year = $12 \times 2,000 =$	<u>£(24,000)</u>
	£20,279

Deemed payment =  $20,279 \times 100 / 112.8 =$  £17,978  
NIC payable on the deemed payment =  $20,279 - 17,978 =$  £2,301

### **Working tax credit**

The basic requirement to claim Working Tax Credit is that you must be aged 25 or over and usually work at least 30 hours a week.

If this does not apply, it may be possible to claim if you work for 16 hours or more a week and at least one of the following applies to you:

- you are responsible for a child
- you have a disability that is a disadvantage in getting a job
- you are aged 50 or over and are returning to work from a previous period of benefit claims.

### **Statutory Sick Pay (“SSP”)**

SSP is the minimum payment allowed to be made to employees unable to work because of illness.

SSP is payable for a maximum of 28 weeks and is liable to both income tax and national insurance.

Employees who earn above the lower earnings limit for national insurance contributions qualify for SSP from the fourth 'qualifying day' of sickness.

I hope the above is useful advice.

Yours sincerely

A A

Memo

To – A Smith

From – A Adams

Subject - key obligations of a member in practice in relation to money laundering

Under the new regime introduced in 2004 by the Proceeds of Crime Act and Money Laundering Regulations, members in practice have to:

Appoint a money laundering reporting officer (MLRO)  
Establish appropriate internal procedures to prevent money laundering.  
Train staff so that they know how to identify money laundering, how to identify clients and how to report suspicions to the MLRO.  
Verify the identity of new clients and maintain evidence of identification.  
Report, via the MLRO if applicable, suspicions and knowledge of money laundering to the Serious Organised Crime Agency (formerly the National Criminal Intelligence Service).

Q3

Thanks for your e-mail. I can provide the following answers to your queries:

### **Earnings for work partly in and partly outside the UK**

1. The domicile of the employee makes no difference to the tax treatment.
2. If the employees are resident and ordinarily resident, they will pay UK tax on all their earnings.
3. If they are resident but not ordinarily resident, the rules are split as follows:
  - for work they do in the UK, they will pay UK tax on all the earnings
  - for work they do overseas, they will only pay UK tax on any earnings they bring back to the UK

### **Reimbursed travel expenses**

As the employees are resident and ordinarily resident in the UK and their duties abroad are for continuous periods greater than 60 days, they are entitled to relief for the full cost of the spouse's and children's return journeys from the UK to visit the employee for a maximum of two journeys per family member per tax year.

(To qualify a child must be aged under 18 at the start of the outward journey).

Therefore, if three trips are reimbursed for a family member in a tax year then the reimbursement of the third trip will be treated as taxable earnings of the employee.

It is worth noting that the timing of trips in relation to tax years ending and beginning may result in three trips in a calendar year still gaining full tax relief.

I trust the above is useful.

A A

An advertisement:

1. Should be clearly distinguishable as such.
2. Should not be misleading in any way.
3. Should be accurate, both factually and technically
4. Should not be ambiguous or likely to cause public offence;
5. May include areas in which the member specialises;
6. Should contain suitable disclaimers, include copyright notice, appropriate reference to the name of the firm and contact details.
7. It must not contain any disparaging reference to or disparaging comparisons with the services of others.

Members remain responsible for advertisements even where the work is delegated to an advertising agency or other intermediary.



Q4

Memorandum for discussion with client:

1 Rules and benefits of the scheme:

- A business may join the scheme if it is expected that:
  - Its taxable turnover in the next year will be £150,000 or less; and
  - Its total income in the next year will be £187,500 or less.
- The main advantage is that it simplifies VAT accounting for small businesses.
- In the first year of VAT registration, a discount of 1% is given on the flat rate applied.
- The business issues invoices for its supplies showing net price plus a VAT charge of 17.5%. Its output tax is then calculated by applying the appropriate flat rate percentage to the VAT inclusive turnover.
- Input tax is cannot recovered on expenses. However an exception is made to this rule for large capital expenditure. Input tax can be recovered on capital expenditure which exceeds £2,000.
- Businesses must leave the scheme if on any anniversary of starting the scheme their turnover in the year then ended exceeds £225,000; or
- It is expected that turnover in the next 30 days will exceed £225,000.

2) In the accounts, turnover is shown as gross turnover minus output VAT paid under the flat rate scheme.  
Expenses are shown inclusive of irrecoverable input VAT

3) The March VAT return should include the following figures:

Output tax: £15,000 x 8.5% = £1,275

Input tax : Nil

Payment due: £1,275

4)

- If VAT is paid by cheque, the due date for submission of the VAT return and payment for the period ended 31 March 2007 is 30 April 2007.
- The due date is 7 May 2007 if payment is made electronically

5) In relation to the second quarter VAT return, VAT can be claimed on the kitchen as it is capital expenditure exceeding £2,000.