



Association of Taxation Technicians

Examination

May 2008

PAPER 7 – PART II

PRACTICE ADMINISTRATION & ETHICS

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. Your firm's client, Peter Crump, is the major shareholder and managing director of a successful trading company. He is also involved in a partnership that provides consultancy services to third parties. Peter is becoming increasingly confused by the different payment and reporting regimes applying for Income Tax, Capital Gains Tax and Corporation Tax.

Following numerous conversations with Peter on the subject, the partner acting for Peter has promised to provide him with a brief guide.

You are required to prepare a memorandum for Peter addressing the following:

- 1) **The Corporation Tax payment and reporting obligations for both large and small companies. Include an explanation of how large companies are defined for this purpose.** (8)
- 2) **The Income Tax payment and reporting obligations relevant to Peter as an individual.** (7)
- 3) **Peter's payment and reporting obligations for Capital Gains Tax.** (1)

You are not required to discuss the penalties for the late filing of returns or the late payment of tax.

Total (16)

2. You are the tax manager responsible for your firm's work for Angelica Ltd, a family owned company. Your work includes the preparation and submission of the company's tax return and the Income Tax returns for the director-shareholders. You are becoming increasingly concerned that Angelica Ltd may be under-reporting profits, on the basis that the directors' lifestyles do not appear to be consistent with the amounts they have declared as remuneration and dividends. However, as part of your firm's routine procedures, confirmations have been received from the directors that the information reflected in the accounts and tax returns is complete and correct.

You recently raised your concerns with the partner acting for the company.

You receive the following response from him:

"I am out of the office for much of the next two weeks but would like to pick up on this with you as soon as possible. Could you send me a briefing note, so that we can have an informed discussion as soon as I return to the office?"

You are required to prepare the requested briefing note, discussing the firm's current and potential future obligations, in light of your suspicions, which should include the following:

- 1) **A note of the action to be taken by the firm with regard to its professional obligations if it had definite information that profits had been under-reported.** (5)
- 2) **An explanation of the firm's professional obligations and possible actions to be taken, given that the directors have confirmed that the tax returns are complete.** (6)
- 3) **A brief explanation of the firm's obligations with regards to the Proceeds of Crimes Act 2002.** (5)

Total (16)

3. You are Peter Dyson of Dyson Accountants & Co. Yesterday you had a phone conversation with Emma Smith who has recently been appointed as the finance director of one of your client companies, Bracken Ltd. As part of her new role, Emma is responsible for dealing with employee taxation matters. Your notes of the telephone conversation are as follows:

Notes of a telephone conversation with Emma Smith on 1 May 2008

Emma is the new finance director of Bracken Ltd and has requested details of the taxation administration issues regarding employees.

Bracken Ltd currently has approximately 60 employees. The employees are paid monthly at the end of each month.

A number of employees are provided with company cars.

She would like to know the procedure to be followed for new starters, including those who are provided with a company car, to ensure they are correctly taxed through the payroll.

The company also reimburses certain business expenses incurred by employees, such as travel, subsistence and entertainment. All of these are within HM Revenue & Customs guidelines and as such no taxable benefits arise. Bracken Ltd would like to avoid having to report these reimbursements, if possible.

The company is planning to introduce an incentive award scheme whereby a number of employees will receive awards in the form of capital goods, such as electrical equipment. Emma realises that the receipt of the awards by employees is taxable, but thinks that the tax liability will act as a disincentive for employees. She would like to avoid employees having to actually pay any of the tax liabilities arising.

Emma has requested a letter providing details of Bracken Ltd's reporting requirements for its PAYE and National Insurance liabilities and ways of achieving the required objectives for the incentive awards and reimbursed expenses. Filing and payment deadlines are to be included.

You are required to write a letter to Emma dealing with her request. Your letter should include details of any relevant time limits. You are not required to include details of any penalties that could arise.

Your letter should cover:

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| 1) New employee procedures. | (3) |
| 2) PAYE obligations including end of year returns. | (4) |
| 3) Reporting of benefits in kind. | (3) |
| 4) Procedure to adopt to avoid reporting reimbursed business expenses. | (3) |
| 5) Procedure to adopt in order to avoid employees paying tax and National Insurance on any incentive awards. | (3) |

Total (16)

4. You have recently held a meeting with a potential new client, Paul Simmonds. Paul has informed you that he expects his tax liability for the current year to be substantial due to a large increase in business profits. He has also made a disposal of company shares which has resulted in a substantial capital gain. Paul hinted that he has carried out some 'unusual transactions' and is unclear as to the amounts (if any) that are liable to tax.

Paul has been told by a friend that if he omits the chargeable gain from his tax return, there is a chance that he will avoid a tax liability. He wonders if you think it is worth taking that chance.

He would also like your advice on reporting the 'unusual transactions' on his tax return in the most favourable manner possible and on whether any tax planning can be undertaken to reduce his tax liability.

You are required to:

- 1) **Explain the distinction between tax avoidance and tax evasion.** (2)
- 2) **Explain the standards a professional adviser must apply when advising a new client on the completion of their tax return.** (6)
- 3) **Explain the principle of professional privilege that an adviser has in relation to documents and papers in their possession, with particular reference to disclosing the contents of those documents and papers to third parties.** (4)

Total (12)