



**Association of Taxation Technicians**

## **Examination**

May 2008

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### **PAPER 6 – PART II**

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### **BUSINESS COMPLIANCE**

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

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- 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. You are the tax manager at the accountants for Mountain Ltd. The managing director, Mr Simpson, has telephoned you regarding the company's VAT compliance. Since March 2007, the company's VAT returns have been submitted as follows:

<u>VAT quarter ended</u>	<u>Tax due</u>	<u>Date return and cheque sent to HM Revenue &amp; Customs</u>
	£	
31 March 2007	7,500	15 May 2007
30 June 2007	6,000	29 July 2007
30 September 2007	8,000	11 November 2007
31 December 2007	7,000	14 February 2008

The VAT return for the quarter ended 31 March 2008 showed tax due of £8,500. This return together with a cheque for the amount due was sent to HM Revenue & Customs on 5 May 2008.

Although Mr Simpson has received surcharge liability notices from HM Revenue & Customs in the past, he is unclear as to their significance and is concerned that penalties may become due.

**You are required to write a letter to Mr Simpson explaining:**

- 1) **How the default surcharge penalty regime applies to Mountain Ltd.** (12)
  - 2) **What is meant by reasonable excuse.** (3)
- Total (15)

2. Dora is the 30-year-old marketing director of a successful advertising agency. Her employer has been taken over and the new owners wish to make her redundant. They are negotiating a severance package and have asked for your advice on the taxation implications of the following:

	£
Lump sum ex-gratia payment	50,000
Statutory redundancy payment	5,000
Contribution to pension fund	20,000
Gift of company car currently provided for private use – value	20,000

**You are required to:**

- 1) **Explain the taxation implications of each of the above items for both Dora and her employer. You should also explain the PAYE procedures to be followed when making these payments.** (10)
- 2) **Briefly summarise the Association of Taxation Technicians' Professional Rules and Practice Guidelines on the collection of unpaid fees from clients who are slow to pay.** (3)

Total (13)

3. You have been introduced to Barry Short who is starting a business and will be employing five other people. He will run the payroll using payroll software and has asked you to write to him explaining the procedures to be followed to ensure compliance with the PAYE scheme rules.

**You are required to draft a letter to Barry:**

- 1) **Explaining the PAYE rules and procedures he needs to follow monthly and annually to ensure compliance with the scheme.** (15)
- 2) **Summarising the legal protections from which employees benefit in contrast to self-employed contractors.** (5)

Total (20)

4. Echo Ltd has recruited a new director to commence work on 6 April 2007. The director was given the following employment package by the company:

Salary: £50,000 per annum.

Bonus: 5% of value of new business introduced to the firm. The bonus is calculated to and paid on the 31 March each year. During 2007/08 the new director introduced £80,000 of new business to the firm.

Childcare: Echo Ltd operates a voucher scheme and pays £55 per week towards the costs of a place at an Ofsted registered nursery.

Car: The director was offered a company car as part of his package and, as part of his negotiations with the company, he paid Echo Ltd £2,000 to upgrade the car. The car the director received is a diesel vehicle with CO<sub>2</sub> emissions of 150 g/km. Echo Ltd purchased the car from a dealer for £20,000 and paid £5,000 for accessories for the vehicle. The list price of the car is £35,000 and for the accessories is £8,000.

Fuel: Echo Ltd has agreed to pay for all of the director's fuel.

Telephone: The director was provided with a mobile telephone for use on company business.

Computer: To enable him to work from home, the company has loaned the director a computer with a market value of £1,500. There are no restrictions on private use.

**You are required to:**

- 1) **Calculate the director's employment income for 2007/08.** (8)
- 2) **Calculate Echo Ltd's Class 1 and Class 1A National Insurance Contributions, assuming the director has not contracted out.** (4)

Total (12)