Mock Exam One

AAT Level 3
Tax Processes for Businesses
(Finance Act 2024)

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This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject (based on the Finance Act 2024 and relevant to AAT exam assessments from 27 January 2025). They are produced by our expert AAT tutors, giving real AAT exam style and standard tasks, that ensure the very best for exam success.

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Mock Exam One
AAT L3 Tax Processes for Businesses

Assessment information:

You have **1 hour and 30 minutes** to complete this Tax Processes for Businesses practice assessment.

- This assessment contains **8 tasks** and you should attempt to complete every task.
- Each task is independent. You will not need to refer to your answers to previous tasks.
- The total number of marks for this assessment is **80**.
- Read every task carefully to make sure you understand what is required.
- Where the date is relevant, it is given in the task data.
- Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 **not** 100,57 or 10057.
- You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.
- If your answer requires rounding, apply normal mathematical rules **unless** the task instructions say otherwise.

AAT reference material is available to be viewed during your exam assessment.

Task 1 (9 marks)

This task is about understanding and calculating UK tax law principles relating to VAT, registration and deregistration and special schemes.

This task contains parts (a) to (d).

A wholesaler buys goods for £3,000 plus VAT of £600 and then sells the goods to a retailer for £7,000 plus VAT of £1,400. The retailer resells the same goods for £15,000 plus VAT of £3,000 to a non-VAT registered business. Both the wholesaler and retailer are VAT registered.

(a) Calculate the cost of the £3,000 VAT received from HMRC for each business shown above. If your answer is zero, enter '0'.

(3 marks)

Cost to the wholesaler

£ [ ]

Cost to the retailer

£ [ ]

Cost to the non-VAT registered business

£ [ ]

(b) Which of the following is a non-taxable supply.

(1 mark)

Zero-rated sales	[ ]
Reduced rate sales	[ ]
Exempt sales	[ ]
Standard rated sales	[ ]

A business failed to register for VAT when it was required to do so. During the period that it should have been registered for VAT it made standard rated taxable sales of £36,000.

(c)(i) If the business chooses to treat its sales invoices as VAT inclusive and absorb the cost of VAT, the amount of output VAT would be:

(1 mark)

£ [ ]

(c)(ii) If the business chooses to recover the VAT from its customers, the amount of output VAT would be:

(1 mark)

£ [ ]

(c)(iii) Complete the following sentence.

(1 mark)

The business may face a [▼] because it did not register for VAT when it is was required to do so.

Picklist: Prison sentence, Civil penalty, Criminal prosecution.

A business is preparing its VAT return for the quarter ended 30 June 20X2. The following transactions were recorded for the relevant return period.

- Sales invoices £340,000 plus VAT.
- Payments received from customers £310,000 plus VAT.
- Purchase invoices £80,000 plus VAT.
- Payments made to suppliers £60,000 plus VAT.

- All sales and purchases were standard rated taxable supplies.
- All invoice dates are the same as the delivery date.
- There was no payment of invoices in advance.

(d) Based only on the information above for the current VAT Return, is the business better off using the cash accounting scheme. [▼]

(2 marks)

Picklist: Yes, No, Not possible to tell from the information.

End of Task

Task 2 (8 marks)

This task is about calculating and accounting for VAT.

This task contains parts (a) to (d).

(a) Identify whether the following documents are valid or not valid when accounting for VAT on a VAT Return.

(3 marks)

	Valid	Not valid
A simplified invoice	☐	☐
A pro-forma invoice	☐	☐
A credit or debit note	☐	☐

Goods were collected by a customer on 7 June 20X9. The business invoiced the customer for the goods on 5 May 20X9. Payment for the goods was made by the customer on 7 May 20X9.

(b) Identify the correct VAT Return when the transaction should be included.

(2 marks)

VAT Return quarter ending 30 November 20X8	☐
VAT Return quarter ending 28 February 20X9	☐
VAT Return quarter ending 31 May 20X9	☐
VAT Return quarter ending 31 August 20X9	☐

A VAT registered business sold standard rated goods for £500 plus VAT to a UK customer. The payment terms on the sales invoice offered a 2% discount if the customer paid within 7 days of the invoice date. The invoice amount did not include a deduction for the 2% prompt payment discount. The customer paid the invoice within 5 days of the invoice date.

(c) Identify what the business must do.

(2 marks)

Issue an VAT invoice for the 2% discount	☐
Issue a VAT credit note for the 2% discount	☐
Reissue a VAT invoice for the full amount before the 2% discount	☐
Take no further action	☐

A manufacturer sells an item to a customer for £41.13 plus VAT. The item sold is a standard rated taxable supply.

(d) Calculate the total VAT payable that would be shown on a VAT invoice. Round down all VAT amounts to the nearest penny.

(1 mark)

£ ☐

End of Task

Task 3 (12 marks)

This task is about the recovery of input tax.

This task contains parts (a) to (e).

A VAT registered business sells both taxable and non-taxable goods and has input VAT which it wants to reclaim for its current VAT return. Input VAT paid in connection with taxable and non-taxable sales include:

	Input VAT
Standard Rated Supplies	£8,000
Zero Rated Supplies	£20,000
Exempt Supplies	£12,000

(a) Complete the following statement.

(2 marks)

The amount of input VAT that can be reclaimed by the business is [▼]

Picklist: All of it, Some of it, None of it.

(b) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
Whenever a vehicle is used for business purposes, the business can reclaim the input VAT it has paid on repairs and maintenance.	☐	☐
A business can reclaim all input VAT paid on fuel if vehicles are used 100% for business purposes.	☐	☐
Detailed records of business and private mileage must be kept, when fuel scale charges are used to work out how much VAT is reclaimed.	☐	☐

A VAT registered business is preparing its quarterly VAT return. During the relevant VAT period the business paid £157.50 including VAT on standard rated petrol that was used for a business car driven by an employee. The employee used the car 40% for private use. The cars C02 emissions figure is 158 g/km. The business uses fuel scale charges to account for input tax paid on private fuel.

Complete the following sentences. Round all answers to the nearest 2 decimal places.

(c)(i) The relevant fuel scale charge including VAT for the car would be.

(1 mark)

£ [ ]

(c)(ii) The output tax payable for the relevant fuel scale charge would be.

(1 mark)

£ [ ]

(c)(iii) When using fuel scale charges the input tax recoverable on the cost of petrol would be.

(1 mark)

£ [ ]

A VAT registered business is reviewing input tax that it paid on business and employee entertaining.

(d) Identify for each type of expenditure whether input VAT paid is ALL recoverable, SOME of it is recoverable or NO input tax is irrecoverable. You may use each answer more than once. (3 marks)

Details of expenditure	All input tax recoverable	Some input tax recoverable	No input tax recoverable
The business entertains its UK customers to further its business relationships. Business employees also attended the event.	☐	☐	☐
To reward staff for their good work the business held a staff dinner. A mixture of employees and non-employees attended the event.	☐	☐	☐
The business entertains its UK customers. Overseas customers who were not from the UK or Isle of Man also attended the event	☐	☐	☐

(e) Complete the following statement.

(1 mark)

Bad debt relief can [ ] be reclaimed by a VAT registered business.

Picklist: Always, Sometimes, Never.

End of Task

Task 4 (8 marks)

This task is about preparing, calculating and adjusting information for VAT returns.

This task contains parts (a) to (d).

A VAT registered business has discovered an error from a previous VAT Return.

(a) Identify for each of the circumstances explained below, whether the error can be corrected by adjusting the current VAT Return of the business (Method 1) or whether the business would need to make a separate declaration to HMRC's VAT Error Correction Team in writing about the mistake (Method 2).

(3 marks)

	Method 1	Method 2
A careless error of £55,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.	☐	☐
A deliberate error of £24,000 was made. The total sales of the business was £1.2 million excluding VAT for its current VAT Return.	☐	☐
A careless error of £45,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.	☐	☐

A business made a non-careless and non-deliberate error on a previous VAT Return.

- VAT of £128 on an invoice to a UK customer was omitted in the accounting records.
- VAT of £15 on a credit note to a UK customer was duplicated in the accounting records.

The business is allowed to correct the net error on its current VAT Return.

(b) Which one of the following corrections should the business make for output tax on its current VAT Return.

(2 marks)

Add £113	☐
Add £143	☐
Deduct £113	☐
Deduct £143	☐

A business sent an invoice to a customer that showed VAT of £1,270. The correct VAT amount recorded should be £1,207. The VAT control account shows entries for output tax of £6,230 and input tax of £1,380. The error has not been corrected.

(c) Identify which one of the following figures that will be shown in the VAT control account when the error has been corrected.

(2 marks)

Input tax £1,317	☐
Input tax £1,443	☐
Output tax £6,293	☐
Output tax £6,167	☐

(d) Identify which one of the following accounting records would not be relevant if completing a VAT Return.

(1 mark)

Wages control account	☐
VAT control account	☐
Sales account	☐

End of Task

Task 5 (12 marks)

This task is about verifying VAT returns.

This task contains parts (a) to (e).

You work for a VAT registered business. You have uploaded information from the accounting software for the current VAT Return which shows a balance owed to HMRC of £4,522.90. A VAT error was then discovered and the VAT control account updated which now shows a balance owed to HMRC of £4,922.90.

(a) Identify for each reason shown below whether it could have caused, or could not have caused the difference between the VAT return and the VAT control account.

(3 marks)

	Could have caused the difference	Could NOT have caused the difference
A sales invoice for standard rated goods had omitted output VAT of £400.	☐	☐
Input VAT of £400 on a credit note from a supplier had not been included.	☐	☐
An invoice of £2,400 for exporting goods overseas was omitted from the sales ledger.	☐	☐

(b) A business is not sure whether a supply of goods is zero rated or standard rated, to find out the answer the business should first.

(2 marks)

Look up the answer on the HMRC website	☐
Contact the VAT Enquires Helpline	☐
Write a letter to HMRC	☐

Mr D runs a sole trader business that is registered for VAT. Mr D is preparing his current VAT Return and during this relevant return period had taken a market value of goods worth £1,000 excluding VAT from his business for his own private use. The goods were a standard rated supply for VAT purposes and cost the business £480 including VAT. The cost of the goods have been included in the business accounts as an expense and any input VAT paid has been reclaimed by the business.

(c) Identify what is the correct action that Mr D should take when completing his current VAT Return.

(2 marks)

	Select ONE answer
Reduce input tax by £80 in Box 4 on his current VAT Return.	☐
Increase output tax by £200 in Box 1 on his current VAT Return and reduce input tax by £80 in Box 4 on his current VAT Return.	☐
Increase output tax by £200 in Box 1 on his current VAT Return.	☐
Do not make any entries for private goods taken on his current VAT Return.	☐

(d) Identify for each transaction shown below what relevant box of a VAT return it would be included. Select one answer for each transaction.

(3 marks)

	Box 1	Box 4	Box 6
A sales invoice of £5,000 for zero rated goods sold overseas.	☐	☐	☐
Input VAT of £30.00 on a purchase invoice received from a credit supplier.	☐	☐	☐
£24.16 output VAT accounted for using a fuel scale charge.	☐	☐	☐

(e) Complete the following sentence.

(2 marks)

Postponed accounting for VAT on imports means that a business can [▼] payment of VAT due on overseas imports, but must account for any VAT on such transactions in [▼] of their relevant VAT Return.

Picklist: Make, Delay, Boxes 1, 4 and 7, Boxes 1, 6 and 7.

End of Task

Task 6 (11 marks)

This task is about VAT rules on record keeping, filing and payment / repayment, including noncompliance implications.

This task contains parts (a) to (d).

You work for a business and have just submitted its on-line VAT Return. The business pays HMRC any VAT due by Direct Debit. Today's date is Wednesday 24 April. There are no bank holidays in the month of April or May. The following information has been submitted on-line for its VAT Return.

VAT Return for the period ended 31 March:

- Box 1 Output VAT £13,000.00
- Box 4 Input VAT £8,464.58

(a) Complete the following e-mail to the finance manager of the business.
Do not enter a negative figure.

(4 marks)

To: Finance Manager
From: Accounting Technician
Date: Wednesday 24 April
Subject: Completed VAT Return

Please be advised that the VAT Return for the period ended 31 March has been completed.

The amount of VAT [▼] will be £ [ ]

Picklist: Payable, Reclaimable.

Please allow sufficient funds to permit HMRC to directly debit our account on [▼]

Picklist: Tuesday 30 April, Tuesday 7 May, Friday 10 May.

Kind regards,

Accounting Technician

A business submits its VAT Return for the quarter ended 30 June to HMRC on 28 August, paying its VAT due of £14,500 on this day. The business has submitted its previous two VAT Returns late to HMRC. The business has never submitted its VAT Returns late at any other time.

(b) Which one of the following statements is most likely correct.

(2 marks)

	Select ONE answer
The business would receive a penalty of £200 for submitting its VAT Return late.	☐
The business would receive a £290 penalty for late payment of VAT.	☐
The business would not be issued with any penalty or be charged interest on late payment of VAT.	☐
The business would receive a penalty of £400 for submitting its VAT Return late and a £290 penalty for late payment of VAT.	☐

A business discovers a careless error in a previous VAT Return and tells HMRC about the inaccuracy by writing directly to them. The error resulted in VAT underpaid.

(c) Complete the following sentence.

(2 marks)

HMRC may charge a penalty which would be a maximum penalty of [▼] of the potential lost revenue.

Picklist: 30%, 70%, 100%.

(d) Identify for a VAT registered business whether the following VAT records will or will not need to be kept.

(3 marks)

	Will need to be kept	Will NOT need to be kept
Records of daily takings such as till rolls.	☐	☐
Copy of a sales receipt for goods purchased for £2.40 from a vending machine.	☐	☐
Copies of simplified VAT invoices.	☐	☐

End of Task

Task 7 (12 marks)

This task is about principles of payroll.

This task contains parts (a) to (e).

(a) Identify whether the following information is or is not included on a P45 form.

(3 marks)

	Included on a P45	NOT included on a P45
Employers PAYE reference	☐	☐
Employees national insurance (NI) code	☐	☐
The employees starting date of employment	☐	☐

A business has 16 employees on its payroll. A Full Payment Submission (FPS) was submitted and payment made 2 weeks late by the business for the third consecutive time in the tax year.

(b) Complete the following sentences.

(2 marks)

The penalty percentage applied because payment was made late in the relevant tax month would most likely be [▼]

Picklist: 1%, 2%, 5%.

The penalty applied because the FPS was submitted late in the relevant tax month would most likely be [▼]

Picklist: £100, £200, £300.

(c) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
If an employer usually pays less than £1,500 per month in PAYE to HMRC it can apply to make quarterly payments to HMRC.	☐	☐
A Full Payment Submission must be submitted to HMRC if an employer makes statutory payments such as Statutory Sick Pay to its employees.	☐	☐
Employment allowance can reduce an employees National Insurance liability by up to £4,000 for the tax year.	☐	☐

An employer has the following payroll details for the tax month ended 5 May 2024.

Payroll details:	**£**
Income tax	5,399.81
Employers National Insurance	3,919.90
Employees National Insurance	2,950.65
Employee pension contributions	1,000.00
Employment Allowance	1,322.14

(d) Complete the following sentences.

(2 marks)

Total PAYE due to HMRC for the tax month ended 5 May 2024 is £ ☐

If the business pays HMRC electronically, the latest date it must pay any PAYE owed to HMRC is ☐

Picklist: 5 May 2024, 19 May 2024, 22 May 2024, 31 May 2024.

(e) Complete the following sentences.

(2 marks)

☐ pay is gross pay of an employee less any tax-free personal allowance.

☐ pay is the total amount actually received by an employee.

Picklist: Total, Gross, Taxable, Net.

End of Task

Task 8 (8 marks)

This task is about reporting information on VAT and payroll.

This task contains parts (a) to (d).

You work for a VAT registered business. Your line manager is the financial accountant and she reviews all VAT and payroll returns and then seeks authorisation from the business owner before sending any returns to HMRC.

The purchases manager has called you and has a VAT query about the construction industry scheme and the payment or recovery of VAT. The purchases manager has queried whether VAT is applicable and what VAT rate should be accounted for. You feel that the query from the purchases manager is beyond your current level of expertise.

(a) Identify which one of the following would not be an appropriate response to the purchase managers query.

(1 mark)

Respond that I don't know the answer to this query and I will refer this to my line manager	☐
The rate of VAT is normally 20%, so advise the purchases manager about this information	☐
Respond that I cannot provide advice without instruction from someone who is competent	☐

Your line manager has heard that national insurance rates will increase from April 2024 and has asked you to find out more information.

(b) Identify two sources of information to find the correct national insurance rates from April 2024.

(2 marks)

A WhatsApp college group for AAT studies	☐
HMRC website	☐
A junior colleague who is enthusiastic about tax	☐
External accountants who act for the business	☐

You are preparing the current VAT Return for the business and this has now been completed.

(c) Complete the following sentences.

(2 marks)

The VAT Return will be sent to be reviewed by the [▼]

The VAT Return will be sent to be authorised by the [▼] before it is sent to HMRC.

Picklist: Purchases manager, Business owner, Financial accountant, Junior colleague.

(d) Identify whether the following statements about data protection principles relating to employees are true or false.

(3 marks)

	TRUE	FALSE
An employer must follow ethical principles on data protection if it stores or uses personal information about its employees.	☐	☐
Employers can carry out a criminal record check for employees working with children or vulnerable adults.	☐	☐
The name and address of an employee cannot be kept by an employer without the employees permission.	☐	☐

End of Task

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Revision Notes

What is VAT

Her Majesty's Revenue and Customs (HMRC) is the government department and relevant tax authority responsible for operating the VAT system within the UK.

Output tax

- Outputs mean the total value of sales excluding VAT.
- Output tax is the VAT charged on the taxable supply of goods or services.

Input tax

- Inputs mean the total value of purchases and other expenses excluding VAT.
- Input tax is VAT which has been paid on the taxable supply of goods or services.

Calculating VAT payments or VAT refunds

- If output tax collected is greater than input tax reclaimed, the business pays over the difference to HMRC (VAT is owed to HMRC).
- If input tax reclaimed is greater than output tax collected, the business receives the difference from HMRC (VAT is owed from HMRC).

Calculating VAT from an exclusive or inclusive figure

- If VAT is 5%. Divide a net amount (excluding VAT) by 20, or divide a total amount (including VAT) by 21 to calculate the VAT amount.
- If VAT is 20%. Divide a net amount (excluding VAT) by 5, or divide a total amount (including VAT) by 6 to calculate the VAT amount.

Keeping VAT records

A business can keep VAT records on paper or electronically.

- VAT invoices.
- VAT credit (or debit) notes.
- A VAT control account.
- Annual accounts, including a statement of profit or loss.
- Bank statements and paying-in slips.
- Cash book, purchases and sales day books.
- Orders and delivery notes.
- Records of daily takings such as till rolls.
- Any relevant business correspondence.

Exceptions

- Copies of simplified VAT invoices.
- Copies of purchase invoices no more than £25 including VAT and from a coin-operated telephone, vending machine, car parking charge or toll.

A VAT officer can visit a VAT registered business and inspect their VAT records to make sure they are paying or reclaiming the right amount of VAT.

How long VAT records should be retained

- Record retention period 6 years.
- Penalty for failure to keep records £500.

Making Tax Digital (MTD)

- A VAT registered business must use electronic filing to submit VAT returns.
- A VAT registered business must keep digital business records.
- MTD-compatible software is required.

Relevant sources of VAT information

- VAT section of the HMRC website.
- VAT Enquiries Helpline.
- Write directly to HMRC.

Types of supply for VAT purposes

- VAT is charged on the supply of taxable goods or services by a taxable person.
- A taxable person is anyone who is, or should be VAT registered.

Taxable supplies

- Standard rated supplies - 20% VAT rate.
- Reduced rate supplies - 5% VAT rate.
- Zero rated supplies - 0% VAT rate.

If wholly or mainly zero rated sales then a business can apply for 'VAT exemption'.

Non-taxable supplies

- Exempt from VAT.
- Outside the scope of VAT.

A business that makes wholly (100%) exempt supplies cannot register for VAT.

Summary

Type of supply	VAT rate	Input VAT reclaimed
Taxable supplies		
Standard rated	20%	Yes
Reduced rated	5%	Yes
Zero rated	0%	Yes
Non-taxable supplies		
Exempt	No VAT charged	No
Outside the scope of VAT	No VAT charged	No

Partially exempt supplies

- A business that sells a mixture of taxable and non-taxable (exempt) supplies.
- Reclaims input VAT in connection with taxable sales.
- Input VAT in connection with exempt sales depends on the ‘de minimis’ rule.

The de minimis rule

- If the amount of input tax that relates to exempt supplies is no more than £625 per month and the percentage of input VAT no more than 50% of all input VAT, then all of it can be reclaimed.
- If the amount of input tax that relates to exempt supplies is more than £625 per month, or the percentage of input VAT more than 50% of all input VAT, then none of it can be reclaimed.

VAT registration and deregistration

VAT registration is not compulsory unless either of the following conditions are satisfied.

The future turnover test

A business must register if at ‘any time’ it realises that its taxable turnover is going to be more than £90,000 in the next 30-day period. This test is applied at any time in a calendar month and at any time of the year.

The historic turnover test

A business must register for VAT if its taxable turnover is more than £90,000 in the last 12-month period. This test is applied on the last day of each calendar month.

Consequences of failing to register on time for VAT

Input VAT can be reclaimed during the time the business should have been registered. The business has two options to account for output VAT that was not charged during the time the business should have been registered.

- Treat sales invoices as VAT inclusive and pay any output VAT due to HMRC.
- Invoice customers for any output VAT that was due, however customers are not legally obligated to pay it.

Penalties for non-registration or late registration for VAT

Type of behaviour	Within 12 months of tax being due		12 months or more after tax was due	
	Unprompted disclosure	Prompted disclosure	Unprompted disclosure	Prompted disclosure
Non-deliberate	0% to 30%	10% to 30%	10% to 30%	20% to 30%
Deliberate	20% to 70%	35% to 70%	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%	30% to 100%	50% to 100%

Deregistration for VAT

A business can request that HMRC cancel its VAT registration if:

- Taxable turnover in the previous 12 months is no more than £88,000, or
- Taxable turnover in the next 12 months is expected to be no more than £88,000.

Voluntary registration for VAT

A business can voluntarily register for VAT.

Benefits of voluntary registration

- Reclaim input VAT on purchases and expenses.
- Improve credibility and image of the business.
- No risk of taxable sales accidentally going over the VAT registration threshold.

Drawbacks of voluntary registration

- VAT registration can be an administration burden and may impose costs.
- Charging VAT on sales can be a problem if customers are not VAT registered.

Changes to VAT registration

VAT registration details must be kept up to date. A business needs to inform HMRC of any changes within the required timescale or it may be charged a penalty.

Name, trading name or address	Within 30 days
Partnership members	Within 30 days
Agent's details	Within 30 days
Bank account details	14 days in advance
Change in business activity	Within 30 days

VAT Return submission and payment of VAT due

- Normally submitted quarterly to HMRC on-line and payment made electronically.
- HMRC can allow monthly rather than quarterly VAT returns.
- VAT returns must be submitted and payment made one calendar month and 7 days after each VAT return period.
- If the business pays by Direct Debit, then payment will be automatically collected three working days after the due date.
- Paper (not electronic) VAT returns must be submitted and payment made one calendar month after each VAT return period.

The Annual Accounting Scheme for VAT

- The business submits only one VAT Return every year to HMRC but makes payments on account during the year.
- Due date to submit the VAT Return and pay any final balance of VAT due is two calendar months after the VAT Return year end.
- A business can join the annual accounting scheme if its estimated taxable turnover during the next tax year is not more than £1.35 million.
- A business must leave the scheme if its taxable turnover is more than £1.6 million for the next tax year.

The Cash Accounting Scheme for VAT

- Output VAT is not payable until a customer has paid a sales invoice.
- Input VAT is not reclaimed until a supplier purchase invoice has been paid.
- The cash accounting scheme can be used if the estimated taxable turnover of the business during the next tax year is not more than £1.35 million.
- A business must leave the scheme if its taxable turnover is more than £1.6 million during the next tax year.

A business does not have to claim bad debt relief is when it uses the Cash Accounting Scheme for VAT. If a business has a bad debt (an 'unpaid' sales invoice) it will never need to pay output VAT on the sale because the money has never been received.

The Flat Rate Scheme for VAT

- The VAT payment for each VAT return is calculated using a flat (fixed) rate percentage of the total VAT-inclusive turnover of the business. The appropriate flat rate % will be provided in your exam task.
- The maximum flat rate percentage is 16.5%.
- Input VAT is not reclaimed if using the flat rate scheme.
- To join the flat rate scheme the annual VAT-exclusive taxable turnover of the business must be no more than £150,000.

Limited cost business

The maximum flat rate percentage of 16.5% applies to any limited cost business in the flat rate scheme. If the purchase of goods cost less than:

- 2% of its total VAT-inclusive turnover, or
- £1,000 a year.

Reclaiming input VAT on capital expenditure

The flat rate scheme does not allow input VAT to be reclaimed. An exception is capital expenditure that meets certain qualifying conditions.

- It must be a single item purchased that costs £2,000 or more (including VAT).
- It is a good (not a service).

Submitting a VAT Return late

Initially there are no penalties charged for late returns, however once the business has accrued enough penalty points and has reached its 'maximum penalty point threshold', it will receive a £200 fine. Whilst the business remains at its maximum penalty point threshold, another fine of £200 will be charged for each subsequent VAT Return that is submitted late.

Accounting period	Penalty points threshold
Annually	2
Quarterly	4
Monthly	5

Removal of penalty points if a business has not reached its maximum penalty point threshold

Each point automatically expires two years (24 months) after the first day of the month, following the month of the VAT Return deadline that generated the point.

Removal of penalty points if a business has reached its maximum penalty point threshold

If a business has reached its maximum penalty points threshold, it can only remove and reset all points back to zero when it meets both of the following conditions:

- A period of compliance (submitting all VAT Returns on time during this period of compliance).

and

- Submitting all VAT Returns that were due in the preceding 24 months (whether or not they were on time), the period of compliance is included in this 24 month period.

Meeting both conditions removes all points, even if the business is not at its maximum penalty point threshold.

Accounting period	Period of compliance	Returns to make
Annual	24 months	2
Quarterly	12 months	4
Monthly	6 months	6

Late payment of VAT owed

- The business will get a 'first late payment penalty' whenever a payment of VAT is late.
- There is no penalty if payment of VAT is made within15 days of the due date.
- A penalty is charged when a VAT payment becomes 16 days overdue.
- A further penalty is charged when a VAT payment becomes 31 days overdue. The business will also at this stage get a 'second late payment penalty' and charged late payment interest of 4% per year on any balance outstanding.

Number of days overdue	First late payment penalty	Second late payment penalty
Up to 15 days overdue	None	None
16 to 30 days overdue	2% on the VAT outstanding at day 15.	None
31 or more days overdue	2% on the VAT outstanding at day 15. AND 2% on the VAT outstanding at day 30.	A daily rate of 4% per year on the outstanding balance. Charged everyday from day 31 until the outstanding balance is paid in full.

Interest charged on late payment of VAT owed

From 1 January 2023, HMRC will charge a VAT-registered business late payment interest running from the first day that payment is overdue until the amount is paid. Interest is calculated at the Bank of England base rate plus 2.5%. The Bank of England base rate will be given in your exam assessment.

Assessments from HMRC for VAT due

If a business does not send a VAT Return, HMRC have the power to issue a 'VAT notice of assessment of tax' telling them how much VAT payable that they think is owed. Any VAT payment is due immediately and if the assessment is too high the business cannot appeal it. HMRC can charge a penalty of up to 30% of an assessment if an assessment was too low and the business does not tell them it is wrong within 30 days.

Penalties for inaccuracies in a VAT return

HMRC may charge a penalty if a business sends a VAT return that contains an inaccuracy that results in VAT being underpaid and was careless, deliberate, or deliberate and concealed. Penalties will not be applied if there is a reasonable excuse.

The amount of penalty is a percentage of the 'potential lost revenue' (PLR) which is the amount that arises as a result of correcting an inaccurate VAT return.

Type of behaviour	Unprompted disclosure	Prompted disclosure
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%

An unprompted disclosure is when a business tells HMRC about an inaccuracy before HMRC has any reason to believe that they were going to find out. Careless is where the business failed to take reasonable care to get things right. Deliberate is where a business knew that a VAT return was inaccurate when they sent it to HMRC. Deliberate and concealed is 'deliberate' but also active steps were taken to hide and conceal it.

Correcting inaccuracies in previous VAT Returns

When inaccuracies are discovered in previous VAT Returns the net value of all output and input VAT errors should be calculated. The net value of all errors maybe accounted for using either method 1 or 2.

Method 1

A business can make an adjustment on its current VAT return:

- If the net value of all errors is no more than the error correction threshold.
- The errors were not deliberate.
- From an accounting period that ended no more than 4 years ago.

The business may still decide to separately declare errors using method 2.

The error correction reporting threshold is the greater of:

- £10,000, or
- 1% of the total value of sales and other outputs excluding any VAT on the current VAT Return (1% of Box 6 on the current VAT Return), up to a maximum limit of £50,000.

Method 2

A business must separately declare in writing to HMRC to correct errors that are more than the error correction reporting threshold. The correction of deliberate errors from dishonest behaviour must always be reported to HMRC's VAT Error Correction Team, using form VAT652 'Notification of Errors in VAT Returns', or by writing to them directly.

VAT invoices

- If a VAT registered business makes taxable supplies to another VAT registered business then it must issue a VAT invoice.
- A VAT invoice must normally be issued within 30 days of the date of supply (or the date of payment if the customer has paid in advance).

The rounding down rule

- VAT amounts on a VAT invoice are normally rounded down to the nearest whole penny (any fraction of a penny is ignored).
- This concession is not available to retailers.

Full invoice

A full invoice can be issued for a sale of any amount and can include exempt supplies.

Simplified (less detailed) invoice

A simplified invoice is a basic invoice that shows the total amount to be paid inclusive of VAT. A simplified invoice can be issued if the VAT inclusive sale amount is no more than £250 and cannot include exempt supplies.

Modified invoice

A modified invoice (unlike a full invoice) shows the VAT inclusive price of each product item sold and the total amount including VAT. A modified invoice can be issued if the VAT inclusive sale amount is more than £250 and must be agreed with the customer.

Invoice information	Full invoice	Simplified invoice	Modified invoice
Unique invoice number that follows on from the last invoice	Yes	Yes	Yes
Your business name and address	Yes	Yes	Yes
Your VAT number	Yes	Yes	Yes
Date	Yes	No	Yes
The tax point (or 'time of supply') if this is different from the invoice date	Yes	Yes	Yes
Customer's name or trading name, and address	Yes	No	Yes
Description of the goods or services	Yes	Yes	Yes
Total amount excluding VAT	Yes	No	Yes
Total amount of VAT	Yes	No	Yes
Price per item, excluding VAT	Yes	No	Yes
Quantity of each type of item	Yes	No	Yes
Rate of any discount per item	Yes	No	Yes
Rate of VAT charged per item - if an item is exempt or zero-rated make clear no VAT on these items	Yes	Yes (1)	Yes
Total amount including VAT	No	Yes (1)	Yes

(1) If items are charged at different VAT rates, then show this for each item.

What is not a valid VAT invoice

- Pro-forma invoice
- Invoice for only zero-rated or exempt supplies.
- Invoice that states 'this is not a VAT invoice'.
- Statements of account.
- Orders and delivery notes.
- Letters, emails, or other correspondence.

Credit notes

- A credit note is a negative or 'reverse' invoice that serves as official evidence there was a reduction in the amount a buyer owes the seller.
- If a buyer cannot wait for a credit note they can issue a 'debit note' and send this to the seller as official evidence they have reduced an amount owed.
- A debit note or credit note are both valid VAT documents.

Accounting for goods returned and discounts

Goods returned

A seller has three options for VAT administration:

- Return the original invoice and issue a replacement invoice.
- A credit note issued by the seller.
- A debit note issued by the buyer.

Discounts

Bulk and trade discounts are deducted from the item price of the goods or services before VAT is charged on the invoice. A trade or bulk discount is 100% certain at the time of sale. A prompt payment discount (PPD) is more uncertain and therefore a seller has three options for VAT administration:

- Issue the invoice with the PPD already deducted and issue an 'additional' sales invoice for the PPD amount if the customer does not take the PPD.
- Issue the invoice without the PPD deducted and issue a 'credit note' for the PPD amount if the customer does take the PPD.
- Issue the invoice with two amounts to pay, one amount if the PPD is taken and one amount if the PPD is not taken.

International trade

The ‘place of supply’ rather ‘type of supply’ rules determine how VAT is accounted for.

Export of goods

- Zero-rated supplies (no UK VAT).

Import of goods

- UK VAT is applied at the port of entry, or by postponed accounting (using reverse charging on a VAT Return).

Export of services

- Services B2B, the place of supply is the location of the customer (no UK VAT).
- Services B2C, the place of supply is the UK (charge UK VAT).

Import of services

- Reverse charges may apply.

Basic tax point (the ‘date of supply’)

- When the goods were collected by the customer or sent to the customer.
- When the goods were completed (if installed at the customer’s house).
- When services were completed.

Actual tax point

The actual tax point determines the correct VAT return period to account for VAT.

It is the earliest of:

- Date of supply (basic tax point).
- Date of invoice.
- Date of payment.

The '14-day rule'

The only exception to the rule above is when the basic tax point has been chosen and the invoice is issued (sent) within 14 days after the basic tax point. In this case the invoice date becomes the actual tax point.

Blocked expenses for VAT

Private use

Private use means that expenditure has a ‘personal’ or ‘non-business’ nature and any input VAT for private use is blocked. If expenditure has a mixed ‘business’ and ‘non-business’ nature, then input VAT should be apportioned on a fair and reasonable basis. Output VAT must also be accounted for on business goods taken for personal use by an owner or employee of the business.

Purchase of new cars

A business is not normally able to reclaim input VAT paid on the purchase price of a new car, unless the car is used wholly (100%) for business purposes. If no input VAT is reclaimed and the car is subsequently sold in the future it would be an exempt supply for VAT purposes.

Hiring or leasing cars

All input VAT can be reclaimed, if the car is used wholly (100%) for business purposes. 50% input VAT can be reclaimed, if the car is used for private purposes.

Purchase of other motor vehicles (not cars)

A business can usually reclaim the input VAT for buying a commercial vehicle if it is used only for business purposes. Commercial vehicles include vans, motor cycles, lorries, forklift trucks and tractors.

A business can usually reclaim all input VAT paid on the servicing, repairs and maintenance of any vehicles, even if used for private use.

Private use of car fuel

1. Reclaim only input VAT that relates to the fuel used for business miles travelled and detailed mileage records must be kept for each car as evidence.
2. Do not reclaim any input VAT on fuel used for cars. If this option is chosen then VAT cannot be reclaimed on fuel used for all other vehicles.
3. Reclaim all input VAT on fuel used for cars and pay the appropriate fuel scale charge to HMRC for each car.

Fuel scale charges

Description of vehicle: vehicle's CO2 emissions figure	VAT inclusive consideration for a 12 month prescribed accounting period (£)	VAT inclusive consideration for a 3 month prescribed accounting period (£)	VAT inclusive consideration for a 1 month prescribed accounting period (£)
120 or less	702	174	58
125	1,050	263	87
130	1,123	279	92
135	1,191	297	98
140	1,263	315	105
145	1,331	332	110
150	1,404	350	116
155	1,471	368	122
160	1,544	385	127
165	1,612	403	134
170	1,685	420	139
175	1,752	437	145
180	1,825	455	151
185	1,893	473	157
190	1,965	490	163
195	2,033	508	169
200	2,106	526	174
205	2,174	544	180
210	2,246	560	186
215	2,314	578	192
220	2,387	596	198
225 or more	2,454	613	203

Where a cars CO2 emission figure is not a multiple of 5, the figure is rounded down to the next multiple of 5 to determine the level of charge.

Business entertainment

- Business entertainment is any activity where the primary purpose of the event is to further business relationships.
- A business cannot reclaim input VAT incurred on expenditure for business entertainment.
- The exception to the rule is business entertainment provided to ‘overseas customers’ not from the UK or Isle of Man.

Employee entertainment

- The primary purpose of employee entertainment is to reward staff for good work or boost their morale and motivation.
- VAT can be reclaimed by a business on most employee expenses such as entertainment, travel and subsistence.
- Input VAT for employee entertainment is blocked for ‘non-employees’.
- If a mixture of employees and non-employees, then only input VAT on the proportion of expenditure that relates to employees can be reclaimed.

Bad (irrecoverable) debts

Bad debt relief cannot be obtained until ALL of the following conditions are met:

- The business has paid and accounted for output VAT on the sale.
- The business has written off the irrecoverable debt as an expense in its profit or loss account and accounted for this in its VAT control account.
- The debt is more than six months old, and less than four years and six months old from the date when payment of the invoice was due.
- The value of supplies (sales) was not more than the normal selling price for such goods or services and ownership has passed to the customer.
- The debt has not been sold to a factoring company.

PAYE

HMRC is the relevant tax authority for Pay As You Earn (PAYE). PAYE is a system operated by HMRC to collect income tax, national insurance and other deductions from wages and salaries paid to employees. The tax year for PAYE runs from the 6 April to the 5 April each year.

An employer is an individual, business or any type of organisation that hires people to undertake work in return for a wage or salary. An employer must report PAYE information online and in real time (RTI) to HMRC.

The powers of HMRC

- The power to obtain documents and information.
- The power to inspect business premises.

Payroll record retention

Payroll records can be maintained in paper filing systems or stored electronically.

- Retention period 3 years.
- Penalty for failure to maintain records £3,000.

Examples of payroll records

- Payments to employees and any deductions that were made.
- Reports made to HM Revenue and Customs (HMRC).
- Payments made to HMRC.
- Employee leave and sickness absences.
- Tax code notices.

Payroll software helps to record employee details, work out employee pay and deductions, report payroll information and work out how much to pay to HMRC.

Gross Pay, Taxable Pay and Net Pay

Gross pay (or total pay) is the total amount earned by an employee before deductions such as tax and national insurance is taken away.

Taxable pay is gross pay of an employee less any tax-free personal allowance and employee contributions made to an approved pension or retirement scheme, it is used to calculate the correct amount of income tax an employee must pay.

Net pay is the total amount actually received by an employee (their ‘take-home pay’) after all employee deductions have been taken from their gross pay.

Examples of statutory deductions (required by law)

- Income Tax and National Insurance Contributions (NICs).
- Pension contributions.
- Student loan repayments.
- Court orders e.g. child maintenance, or county court judgment (CCJ) payments.

Examples of non-statutory (voluntary) deductions (not required by law)

- Professional fees and trade union subscriptions.
- Season ticket loans.
- Share saving schemes.
- Payroll giving (charitable) donations.

Data protection principles

Employee information must be:

- Used fairly, lawfully and transparently.
- Used for specified and explicit purposes.
- Used in a way that is adequate, relevant and limited to only what is necessary.
- Accurate and kept up to date.
- Kept for no longer than is necessary.
- Handled in a way that ensures appropriate security, including protection against unlawful or unauthorised processing, access, loss, destruction or damage.

An employee has the following rights:

- To be informed about how their data is being used.
- To access their personal data.
- To have incorrect data updated and erased.
- To stop or restrict the processing of their data.

Payslips

Payslips must be issued each time an employee is paid. They help an employee to understand and keep track of their income and deductions from their employment and can be used as proof of employment income to apply for a loan or mortgage application.

The P60 form

- A P60 form shows a summary of an employee's gross salary earned and any statutory payments received and statutory deductions made in their current employment, for a specific tax year.
- It also shows the gross salary earned and income tax deductions made in any previous employment(s) for a specific tax year.
- An employer must issue a P60 form to an employee by 31 May following the end of each tax year (5 April).

Examples of statutory payments received by employees

- Statutory Maternity Pay.
- Statutory Paternity Leave.
- Shared Parental Leave.
- Statutory Adoption Pay.
- Statutory Sick Pay.

Student loan repayments

- Applies if a university graduate earns over a certain annual income threshold.
- The graduate is required to pay back a certain percentage of their income earned above the annual income threshold.
- No student loan repayments are made if an employee's income is below the annual income threshold.
- Calculation of student loan repayments is beyond the scope of your syllabus.

Income tax

- An employee is entitled to a tax-free personal allowance which means that a certain amount of their earnings each year is not subject to income tax.
- A tax code is issued by HMRC for each employee and used by the employer to work out how much income tax an employee must pay.
- The calculation of income tax is beyond the scope of your syllabus.

National Insurance contributions

- NI is calculated using the gross earnings of an employee.
- A National Insurance (NI) category letter is issued by HMRC for each employee and used by the employer to work out how much national insurance an employee must pay.
- Both employer and employee must each pay Class 1 NI contributions to HMRC.
- The calculation of National Insurance is beyond the scope of your syllabus.

The P45 form

- Given by an employer to an employee when they leave their job.
- Summarises the employees gross pay earned during the time of their employment and how much income tax was deducted in the current tax year.
- By law an employer must give an employee a P45 when they leave their job.

The P11D form

- Records any benefits in kind or expense payments that have been provided to an employee by their employer for a specific tax year.
- An employer must submit a P11D form to HMRC no later than 6 July following the end of each tax year (5 April).
- An employee does not always get a P11D but can ask their employer for a copy.

Examples of benefits in kind to an employee

- Business vehicles and fuel provided with private use by an employee.
- Payments of employee utility and home telephone bills by the employer.
- Employee medical insurance, subscriptions and professional fees paid for by the employer.
- Employee credit card expenses paid for by the employer.
- Employee living accommodation and furniture provided by the employer.

PAYE Settlement Agreements (PSA)

- Avoids reporting minor or impracticable expenses or benefits on a P11D.
- One annual payment to cover all tax and National Insurance for such items.
- The deadline for applying for a PSA is by 5 July following the end of each tax year (5 April).

Class 1A NI contributions

- Employers (not employees) pay Class 1A National Insurance (NI) contributions on P11D expenses and benefits provided to employees.
- Payable to HMRC no later than 22 July following the end of each tax year (5 April) if payment is made electronically, or by the 19 July if paying by post.
- National Insurance calculations are beyond the scope of your syllabus.

Class 1B NI contributions

- Employers (not employees) pay Class 1B National Insurance (NI) contributions on PAYE settlement agreements with HMRC.
- Payable to HMRC no later than 22 October following the end of each tax year (5 April) if payment is made electronically, or by the 19 October if paying by post.
- National Insurance calculations are beyond the scope of your syllabus.

Payroll reporting to HMRC in real time information (RTI)

- From 6 April 2012 HMRC began the introduction of Real Time Information (RTI).
- Information under the PAYE system is electronically transmitted to HMRC by an employer every time they pay their employees.

Full Payment Submission (FPS)

- The ‘main’ submission type to HMRC.
- Must be sent each time an employer pays their employees.
- Includes all relevant PAYE information about each employee.
- Deadline for submitting a FPS is no later than the day that employees get paid.

Employer Payment Summary (EPS)

Submitted to HMRC by the 19th following the end of each tax month, if the employer:

- Made statutory payments to employees e.g. Statutory Maternity Pay.
- Wants to claim Employment Allowance.
- Had no FPS return to make in a tax month e.g. no active employees.

Employment Allowance

- Employer can reduce their employers NI liability by up to £5,000 for the tax year.
- Employers Class 1 NI is reduced each time the employer runs their payroll (until the £5,000 is used up or the tax year has ended, whichever is sooner).

PAYE payment deadlines

- The employer must pay HMRC any PAYE due by the 22nd following the end of each tax month (if paying on-line), or the 19th following the end of each tax month (if paying by post).
- The employer may have to pay a penalty for late submission or late payment.

Quarterly and annual payments

- If an employer usually pays less than £1,500 per month to HMRC it can apply to make quarterly rather than monthly payments to HMRC.
- If all employees are paid once a year (annually) and all paid in the same tax month, then an employer can register for an 'annual scheme' which means they send one FPS and make one payment to HMRC each tax year.

Summary (payment and submission deadlines)

Registering for PAYE	You must register before the first payday. You cannot register more than 2 months before you start paying people.
Month end date for PAYE	5th of each month.
Payment date for monthly payroll	22nd of each month if paid electronically. 19th otherwise. If monthly amounts are < £1,500, quarterly payments can be made.
Provide employees with P60	31st May.
Filing deadline for Expenses & Benefits forms	6th July.
PAYE and Class 1A NIC payment date	22nd July if paying electronically. 19th July otherwise.
PAYE settlement agreement submission date	5th July.
PAYE and Class 1B NIC payment date	22nd October if paying electronically. 19 October otherwise.

Penalties for late submission to HMRC

An employer may get a penalty if:

- A Full Payment Submission (FPS) was submitted late.
- The expected number of FPSs in a tax month was not submitted.
- An Employer Payment Summary (EPS) was not submitted because the employer did not pay any employees for a FPS period.
- The amount of any penalty is based on the number of employees on the payroll and is charged quarterly.

Number of employees	Monthly penalty
1 to 9	100
10 to 49	200
50 to 249	300
250 or more	400

HMRC will **not** normally charge a penalty if:

- An FPS is late but submitted within 3 days of the employees' payday.
- A newly registered employer sends their first FPS late but within 30 days of the employees' payday.
- It is the employers first failure in any tax year to send a report on time.

Penalties for late payment of PAYE to HMRC

- The first failure in each tax year does not count as a default.
- The penalty percentage depends on how frequent late payment occurs and how quickly the amount overdue is paid by the employer.
- Penalties are charged quarterly.

Number of defaults in a tax year	Penalty percentage applied to the amount that is late in the relevant tax month
1 to 3	1%
4 to 6	2%
7 to 9	3%
10 or more	4%

Additional penalties

- Not paid after 6 months then an additional penalty of 5% of the amount unpaid.
- Not paid after 12 months then an additional penalty of 5% of the amount unpaid.
- Daily interest will also continue to build up on all unpaid amounts.

Penalties for late payments of amounts due annually or occasionally

- An employer may use the annual accounting scheme.
- An employer may pay Class 1A and Class 1B NI Contributions.
- The penalty date is always 30 days after the due date (see below).

30 days late	5%
6 months late	Additional 5%
12 months late	Additional 5%

- Not paid after 30 days then an additional penalty of 5% of the amount unpaid.
- Not paid after 6 months then an additional penalty of 5% of the amount unpaid.
- Not paid after 12 months then an additional penalty of 5% of the amount unpaid.
- Daily interest will also continue to build up on all unpaid amounts.

Penalties for inaccurate returns and documents

- HMRC may charge a penalty if an employer sends a return or document that contains an inaccuracy that results in an amount underpaid.
- The amount of penalty is a percentage of the 'potential lost revenue' (PLR) which is the amount that arises as a result of correcting an inaccurate return.
- An unprompted disclosure is when a business tells HMRC about an inaccuracy before HMRC has any reason to believe that they were going to find out.
- Careless is where the business failed to take reasonable care to get things right.
- Deliberate is where a business knew that a VAT return was inaccurate when they sent it to HMRC.
- Deliberate and concealed is 'deliberate' but also active steps were taken to hide and conceal it.

Type of behaviour	**Unprompted disclosure**	**Prompted disclosure**
Reasonable care	No penalty	No penalty
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%

Ethical principles for accountants

The AAT Code of Professional Ethics communicates the fundamental principles of ethical behaviour for professional accountants and can be remembered using the acronym ‘PIPCO’.

- **P**rofessional competence and due care
- **I**ntegrity
- **P**rofessional behaviour
- **C**onfidentiality
- **O**bjectivity

Professional competence and due care

- Your syllabus requires you to recognise the importance of maintaining up-to-date and relevant knowledge.
- A professional accountant should make their own limitations known to a client or employer when a task or advice is required.
- If a query is beyond your current experience or expertise then it should be referred to your line manager.

Integrity

- An accountant should be straightforward and honest (truthful) in all professional and business relationships.
- An accountant should be upfront about inaccuracies discovered and to avoid trying to hide or conceal it.

Professional behaviour

- An accountant should comply with all relevant laws and regulations.
- Should avoid any action that discredits their profession.

Confidentiality

- An accountant should not disclose any information to third parties without consent from their client or employer.
- Returns authorised by a client or employer before they are sent to HMRC.

Objectivity

- An accountant should not allow bias, conflicts of interest or undue influence of others to override their professional or business judgement.
- An accountant should not be associated with any information which is materially false, misleading, recklessly provided, or incomplete.

Mock Exam One - Solutions

AAT L3 Tax Processes for Businesses

Task 1 - Solutions (9 marks)

(a) Calculate the cost of the £3,000 VAT received from HMRC for each business shown above. If your answer is zero, enter '0'.

(3 marks)

Cost to the wholesaler

£0.

Cost to the retailer

£0.

Cost to the non-VAT registered business

£3,000.

VAT is collected and administered by a VAT registered business, but it is ultimately suffered by the general public or a non-VAT registered business who is unable to reclaim back any VAT paid.

(b) Which of the following is a non-taxable supply.

(1 mark)

Zero-rated sales	☐
Reduced rate sales	☐
Exempt sales	☑
Standard rated sales	☐

(c)(i) If the business chooses to treat its sales invoices as VAT inclusive and absorb the cost of VAT, the amount of output VAT would be:

(1 mark)

£6000.

Standard rated sales £36,000 ÷ 120% x 20% = £6,000 VAT.

(c)(ii) If the business chooses to recover the VAT from its customers, the amount of output VAT would be:

(1 mark)

£7200.

Standard rated sales £36,000 ÷ 100% x 20% = £7,200 VAT.

(c)(iii) Complete the following sentence.

(1 mark)

The business may face a **Civil penalty** because it did not register for VAT when it is was required to do so.

(d) Based only on the information for the current VAT Return above, is the business better off using the cash accounting scheme. Yes.

(2 marks)

Normal VAT accounting uses the invoice date to account for VAT.

- Sales invoices £340,000 x 20% VAT = £68,000.
- Purchases invoices £80,000 x 20% VAT = £16,000.
- **VAT payable £52,000** (£68,000 - £16,000).

Cash accounting uses the date that money is received or paid to account for VAT.

- Payments received from customers £310,000 x 20% VAT = £62,000.
- Payments made to suppliers £60,000 x 20% VAT = £12,000.
- **VAT payable £50,000** (£62,000 - £12,000).

The business would be £2,000 (£52,000 - £50,000) better off in cash-flow if it uses cash accounting to complete its current VAT Return.

Task 2 - Solutions (8 marks)

This task is about calculating and accounting for VAT.

(a) Identify whether the following documents are valid or not valid when accounting for VAT on a VAT Return.

(3 marks)

	Valid	Not valid
A simplified invoice	☑	☐
A pro-forma invoice	☐	☑
A credit or debit note	☑	☐

(b) Identify the correct VAT Return when the transaction should be included.

(2 marks)

VAT Return quarter ending 30 November 20X8	☐
VAT Return quarter ending 28 February 20X9	☐
VAT Return quarter ending 31 May 20X9	☑
VAT Return quarter ending 31 August 20X9	☐

- Date of supply 7 June 20X9.
- Date of invoice 5 May 20X9.
- Date of payment 7 May 20X9.

The earliest date shown above is the date of invoice on 5 May 20X9 which is therefore the actual tax point. 5 May 20X9 determines the correct VAT Return period to account for the VAT which is the quarter ending 31 May 20X9.

(c) Identify what the business must do.

(2 marks)

Issue an VAT invoice for the 2% discount	☐
Issue a VAT credit note for the 2% discount	☑
Reissue a VAT invoice for the full amount before the 2% discount	☐
Take no further action	☐

Three different ways to account for the VAT for prompt payment discounts:

- Issue an invoice with the PPD deducted and issue an 'additional sales invoice' for the PPD amount if it is not taken by the customer.
- Issue an invoice without the PPD deducted and issue a 'credit note' for the PPD amount if it is taken by the customer. This is the option chosen by the business.
- Issue the invoice with two amounts to pay, one amount to pay if the PPD is taken by the customer and another amount to pay if the PPD is not taken by the customer.

(d) Calculate the total VAT payable that would be shown on a VAT invoice. Round down all VAT amounts to the nearest penny.

(1 mark)

£8.22.

VAT calculation:

- £41.13 x 20% VAT = £8.226 VAT.
- Round down any VAT to the nearest whole penny, VAT is £8.22.

The total VAT payable on all goods and services shown on a VAT invoice may be rounded down to the nearest whole penny, which means that any fraction of a penny can be ignored. The concession above is not available to retailers.

Task 3 - Solutions (12 marks)

This task is about the recovery of input tax.

(a) Complete the following statement.

(2 marks)

The amount of input VAT that can be reclaimed by the business is **Some of it**.

All input tax in connection with taxable supplies can be recovered. This would be the input tax paid on Standard Rated Supplies £8,000 and Zero Rated Supplies £20,000.

Input tax recoverable on Exempt Supplies of £12,000 depends on the de minimis rule:

The de minimis rule

- If the amount of input tax that relates to exempt supplies is no more than the 'de minimis' amount of £625 per month **and** the percentage of input VAT relating to exempt supplies is no more than 50% of all input VAT paid, then all of it can be reclaimed by the business.
- If the amount of input tax that relates to exempt supplies is more than the 'de minimis' amount of £625 per month, **or** the percentage of input VAT relating to exempt supplies is more than 50% of all input VAT paid, then none of it can be reclaimed by the business.

In this case the £12,000 input tax in connection with exempt sales is way above the £625 allowed per month on average. It is however as amount less than 50% of all input VAT paid. But the rule is 'or' not 'and' so if either condition is satisfied then the input tax in connection with exempt supplies would not be irrecoverable.

The de minimis amount of £625 (average) per month and the proportion of VAT of 50% is included in your AAT reference material and available in your exam.

(b) Identify whether the following statements are true or false. (3 marks)

	TRUE	FALSE
Whenever a vehicle is used for business purposes, the business can reclaim the input VAT it has paid on repairs and maintenance.	☑	☐
A business can reclaim all input VAT paid on fuel if vehicles are used 100% for business purposes.	☑	☐
Detailed records of business and private mileage must be kept, when fuel scale charges are used to work out how much VAT is reclaimed.	☐	☑

The third statement is false. One of the merits of using fuel scale charges to work out how much VAT is reclaimed is that detailed records of business and private mileage do not need to be kept.

(c)(i) The relevant fuel scale charge including VAT for the car would be.

(1 mark)

£**368.00**.

The relevant fuel scale charges are included in your AAT reference material which is available during your exam. Where a cars CO2 emission figure is not a multiple of 5, the figure is rounded down to the next multiple of 5 to determine the level of charge. The cars C02 emissions figure is 158 g/km, so it is rounded down to 155 g/km. The VAT inclusive consideration for a 3 month prescribed accounting period (£) for an emissions figure of 155 g/km is £368.

(c)(ii) The output tax payable for the relevant fuel scale charge would be.

(1 mark)

£**61.33**.

The output tax accountable on the quarterly VAT Return is £61.33 (£368 inclusive of VAT ÷ 120% x 20% or £368 ÷ 6).

(c)(iii) When using fuel scale charges the input tax recoverable on the cost of petrol would be.

(1 mark)

£**26.25**.

If the business uses fuel scale charges it can reclaim **all** input VAT paid on fuel used for cars (and other commercial vehicles) and pay the appropriate fuel scale charge to HMRC for each car with private use. The business paid £157.50 including VAT on standard rated petrol that was used for a business car driven by an employee. The input tax accountable on the quarterly VAT Return is £26.25 (£157.50 inclusive of VAT ÷ 120% x 20% or £157.50 ÷ 6) = £26.25).

(d) Identify for each type of expenditure whether input VAT paid is ALL recoverable, SOME of it is recoverable or NO input tax is irrecoverable. You may use each answer more than once.

(3 marks)

Details of expenditure	All input tax recoverable	Some input tax recoverable	No input tax recoverable
The business entertains its UK customers to further its business relationships. Business employees also attended the event.	☐	☐	☑
To reward staff for their good work the business held a staff dinner. A mixture of employees and non-employees attended the event.	☐	☑	☐
The business entertains its UK customers. Overseas customers who were not from the UK or Isle of Man also attended the event	☐	☑	☐

Statement 1. A business cannot reclaim input VAT incurred on expenditure for business entertainment. The exception to the rule is business entertainment provided to 'overseas customers' not from the UK or Isle of Man.

Statement 2. For employee entertainment the input VAT would be blocked for 'non-employees' but the business can recover the proportion of input VAT for employees.

Statement 3. For business entertainment the input VAT would be blocked for UK customers but the business can recover the proportion of input VAT for its overseas customers not from the UK or Isle of Man.

(e) Complete the following statement.

(1 mark)

Bad debt relief can **Sometimes** be reclaimed by a VAT registered business.

Bad debt relief cannot be obtained until certain conditions have been met. The conditions are included in the AAT reference material available in your exam.

Task 4 - Solutions (8 marks)

This task is about preparing, calculating and adjusting information for VAT returns.

(a) Identify for each of the circumstances explained below, whether the error can be corrected by adjusting the current VAT Return of the business (Method 1) or whether the business would need to make a separate declaration to HMRC's VAT Error Correction Team in writing about the mistake (Method 2).

(3 marks)

	Method 1	Method 2
A careless error of £55,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.	☐	☑
A deliberate error of £24,000 was made. The total sales of the business was £1.2 million excluding VAT for its current VAT Return.	☐	☑
A careless error of £45,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.	☑	☐

A careless error of £55,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.

The error is non-deliberate so the error reporting threshold may apply.

Error reporting threshold is the greater of:

- £10,000, or
- 1% of £6,000,000 sales on the current VAT Return. £6,000,000 ÷ 100% x 1% = £60,000 (subject to an upper limit of £50,000).

The greater of the two amounts above is £60,000 (not £10,000). However, the £60,000 has an upper limit of £50,000. The error reporting threshold is therefore £50,000. The net value of all errors is £55,000 and is above the threshold of £50,000 therefore the business must separately declare to HMRC the errors and omissions and not make an adjustment on its current VAT Return (method 2).

A deliberate error of £24,000 was made. The total sales of the business was £1.2 million excluding VAT for its current VAT Return.

The correction of deliberate inaccuracies must always be reported to HMRC's VAT Error Correction Team (method 2).

A careless error of £45,000 was made. The total sales of the business was £6 million excluding VAT for its current VAT Return.

The error is non-deliberate so the error reporting threshold may apply.

Error reporting threshold is the greater of:

- £10,000, or
- 1% of £6,000,000 sales on the current VAT Return. £6,000,000 ÷ 100% x 1% = £60,000 (subject to an upper limit of £50,000).

The greater of the two amounts above is £60,000 (not £10,000). However, the £60,000 has an upper limit of £50,000. The error reporting threshold is therefore £50,000. The net value of all errors is £45,000 and is below the threshold of £50,000 therefore method 1 can be used and the errors corrected by making an adjustment on the current VAT Return.

(b) Which one of the following corrections should the business make for output tax on its current VAT Return.

(2 marks)

Add £113	☐
Add £143	✓
Deduct £113	☐
Deduct £143	☐

- VAT of £128 on an invoice to a UK customer was omitted in the accounting records. This is output VAT that should have been included in a previous VAT Return and increases output VAT payable. Add £128 to output tax on its current VAT Return.
- VAT of £15 on a credit note to a UK customer was duplicated in the accounting records. This amount would be deducted from output tax in a previous VAT return and decreases output VAT payable. Add £15 to output tax on its current VAT Return because it was deducted twice in error.
- Add £143 (£128 + £15) to output tax.

(c) Identify which one of the following figures that will be shown in the VAT control account when the error has been corrected.

(2 marks)

Input tax £1,317	☐
Input tax £1,443	☐
Output tax £6,293	☐
Output tax £6,167	☑

Output tax currently payable of £6,230 must be reduced by £63 (£1,270 - £1,207) which leaves output tax left of £6,167.

(d) Identify which one of the following accounting records would not be relevant if completing a VAT Return.

(1 mark)

Wages control account	☑
VAT control account	☐
Sales account	☐

There would be no reason to use a wages control account because no VAT is charged on wages and salaries. Wages and salaries are outside the scope of VAT.

Task 5 - Solutions (12 marks)

This task is about verifying VAT returns.

(a) Identify for each reason shown below whether it could have caused, or could not have caused the difference between the VAT return and the VAT control account.

(3 marks)

	Could have caused the difference	Could NOT have caused the difference
A sales invoice for standard rated goods had omitted output VAT of £400.	☑	☐
Input VAT of £400 on a credit note from a supplier had not been included.	☑	☐
An invoice of £2,400 for exporting goods overseas was omitted from the sales ledger.	☐	☑

VAT Return £4,522.90 (before the error) less VAT control account £4,922.90 (after the error) equals £400. The balance owed to HMRC has risen by £400.

- A sales invoice for standard rated goods had omitted output VAT of £400. If output VAT is included then VAT owed to HMRC would rise by £400.
- Input VAT of £400 on a credit note from a supplier had not been included. This error would reduce input VAT reclaimed in which case the VAT owed to HMRC would rise by £400.
- An invoice of £2,400 for exporting goods overseas was omitted from the sales ledger. The export of good overseas is normally zero rated and therefore if the sales invoice is included there would be no change in VAT owed to HMRC.

(b) A business is not sure whether a supply of goods is zero rated or standard rated, to find out the answer the business should first.

(2 marks)

Look up the answer on the HMRC website	☑
Contact the VAT Enquires Helpline	☐
Write a letter to HMRC	☐

Most VAT queries can be answered by referring to the VAT section of the HMRC website. If the answer is not on the HMRC website, the quickest and easiest way is to contact the VAT Enquiries Helpline where most VAT questions can be answered. A business can make a VAT enquiry online, by webchat or phone.

The VAT General Enquiries helpline can answer most questions relating to VAT, but there may be times when it is more appropriate to write directly to HMRC.

(c) Identify what is the correct action that Mr D should take when completing his current VAT Return.

(2 marks)

	Select ONE answer
Reduce input tax by £80 in Box 4 on his current VAT Return.	☐
Increase output tax by £200 in Box 1 on his current VAT Return and reduce input tax by £80 in Box 4 on his current VAT Return.	☐
Increase output tax by £200 in Box 1 on his current VAT Return.	☑
Do not make any entries for private goods taken on his current VAT Return.	☐

Goods supplied for personal use are a taxable supply for a VAT registered business, the VAT normally being charged on the market value (sale price) of the goods at the time they are taken for personal use. The ‘separate entity’ accounting principle states the business and the owners private transactions should be kept separate for accounting purposes. The owner is no different to a customer if he takes goods for personal consumption e.g. an external sale has occurred for the business and output tax is chargeable on the supply. The double entry for accounting purposes would be DR (increase) Drawings £1,200 CR (increase) Sales £1,000 CR (increase) VAT control account £200 output tax due.

(d) Identify for each transaction shown below what relevant box of a VAT return it would be included. Select one answer for each transaction.

(3 marks)

	Box 1	Box 4	Box 6
A sales invoice of £5,000 for zero rated goods sold overseas.	☐	☐	☑
Input VAT of £30.00 on a purchase invoice received from a credit supplier.	☐	☑	☐
£24.16 output VAT accounted for using a fuel scale charge.	☑	☐	☐

The relevant boxes on a VAT Return include:

- Box 1 – Output VAT due on sales and other outputs.
- Box 4 – Input VAT reclaimed on purchases and other inputs.
- Box 6 - Total value of sales and all other outputs, excluding any VAT.

(e) Complete the following sentence. (2 marks)

Postponed accounting for VAT on imports means that a business can **Delay** payment of VAT due on overseas imports, but must account for any VAT on such transactions in **Boxes 1, 4 and 7** of their relevant VAT Return.

Postponed accounting for VAT on imports means you declare and recover import VAT on the same VAT Return, rather than having to pay it upfront when the goods are imported and recover it later on the VAT Return. You must account for postponed import VAT on any relevant VAT Return period that covers the date when goods are imported.

The following record would be made on the relevant VAT Return:

- Box 1 - Include the VAT due in this period on imports accounted for through postponed VAT accounting (same figure included in Box 4).
- Box 4 - Include the VAT reclaimed in this period on imports accounted for through postponed VAT accounting (same figure included in Box 1).
- Box 7 - Include the total value of all imports of goods in this period, excluding any VAT due.

Since the VAT due is declared in Box 1 and Box 4 the net effect is that no VAT is reclaimed by the importer, this should be the case since no VAT was actually paid by the importer if using postponed accounting.

Task 6 - Solutions (11 marks)

This task is about VAT rules on record keeping, filing and payment / repayment, including noncompliance implications.

(a) Complete the following e-mail to the finance manager of the business.
Do not enter a negative figure.

(4 marks)

To: Finance Manager
From: Accounting Technician
Date: Wednesday 24 April
Subject: Completed VAT Return

Please be advised that the VAT Return for the period ended 31 March has been completed.

The amount of VAT **Payable** (1 mark) will be £**4535.42** (1 mark).

Please allow sufficient funds to permit HMRC to directly debit our account on **Friday 10 May**. (2 marks)

Kind regards,

Accounting Technician

VAT payable

Box 1 Output VAT £13,000.00 - Box 4 Input VAT (£8,464.58) = £4,535.42 VAT Payable.

The normal due date for submitting a VAT Return and paying HMRC electronically any VAT that is owed is one calendar month and seven days after the VAT Return period.

- VAT period ended 31 March.
- The business has one calendar month and 7 days after 31 March to file its return and pay any VAT due. Tuesday 7 May is the deadline to submit the VAT Return and pay any VAT due.
- If the business pays HMRC by Direct Debit, HMRC automatically collects payment from the business bank account three working days after the normal due date. HMRC should automatically collect payment by direct debit on Friday 10 May.

(b) Which one of the following statements is most likely correct. (2 marks)

	Select ONE answer
The business would receive a penalty of £200 for submitting its VAT Return late.	☐
The business would receive a £290 penalty for late payment of VAT.	☑
The business would not be issued with any penalty or be charged interest on late payment of VAT.	☐
The business would receive a penalty of £400 for submitting its VAT Return late and a £290 penalty for late payment of VAT.	☐

Quarter ended 30 June, would mean that filing and payment is due 1 month and 7 days after (7 August). The business did not file and pay its VAT until 28 August which was 21 days late (8 August to 28 August).

Penalties for submitting its VAT Return late (see AAT reference material)

It has already received 2 penalty points because it submitted its 2 previous VAT Returns late. It then submits its next VAT Return late, in which case it will receive a third penalty point. The company does not get a £200 penalty because the maximum threshold of 4 penalty points has not been reached.

Penalties for late payment of VAT (see AAT reference material)

- The business will get a 'first late payment penalty' whenever payment is late.
- A penalty is charged when a VAT payment becomes 16 to 30 days overdue.
- 2% on the VAT outstanding at day 15 (see reference material), 2% x £14,500 = £290.00 penalty.

Late payment interest (see AAT reference material)

From 1 January 2023, HMRC will charge VAT-registered businesses late payment interest from the first day their payment is overdue until it is paid in full.

Late payment interest is charged from the first day that the payment is overdue until the day it's paid in full. Interest is calculated at the Bank of England base rate plus 2.5% (see reference material). The Bank of England base rate will be given in your exam assessment. VAT due was not paid until 28 August (due date 7 August 2024) and was 21 days late (8 August to 28 August). For this example, assuming the Bank of England base rate was 5% the repayment interest rate would 7.5% (5% + 2.5%). £14,500 x 7.5% × 21/365 days) = £62.57 interest paid on late payment of VAT.

(c) Complete the following sentence.

(2 marks)

HMRC may charge a penalty which would be a maximum penalty of **30%** of the potential lost revenue.

HMRC may charge a penalty if a business sends a VAT return that contains an inaccuracy that results in VAT being underpaid and was careless, deliberate, or deliberate and concealed. Penalties will not be applied if there is a reasonable excuse. The amount of penalty is a percentage of the 'potential lost revenue' (PLR) which is the amount that arises as a result of correcting an inaccurate VAT return. The error was careless and a prompted disclosure was made to HMRC and so the maximum percentage of PLR would be 30%.

The following table is in your AAT reference material available in your exam.

Type of behaviour	**Unprompted disclosure**	**Prompted disclosure**
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%

(d) Identify for a VAT registered business whether the following VAT records will or will not need to be kept.

(3 marks)

	Will need to be kept	**Will NOT need to be kept**
Records of daily takings such as till rolls.	☑	☐
Copy of a sales receipt for goods purchased for £2.40 from a vending machine.	☑	☐
Copies of simplified VAT invoices.	☐	☑

Nearly all business records must be kept by a VAT registered business, however an exception would be copies of simplified VAT invoices.

Task 7 - Solutions (12 marks)

This task is about principles of payroll.

(a) Identify whether the following information is or is not included on a P45 form.

(3 marks)

	Included on a P45	**NOT included on a P45**
Employers PAYE reference	☑	☐
Employees national insurance (NI) code	☑	☐
The employees starting date of employment	☐	☑

(b) Complete the following sentence.

(2 marks)

The penalty percentage applied because payment was made late in the relevant tax month would most likely be **1%.**

The penalty applied because the FPS was submitted late in the relevant tax month would most likely be **£200**.

AAT reference material gives the penalties for late submission and late payment for a FPS and this information is available in your exam. For late submission of the return the employee has 10-49 employees (16 employees) and therefore normally pays a penalty of £200. For late payment the employer has paid 14 days late on 3 occasions in the tax year, so the penalty percentage would normally be 1% of the payment (which is for 1-3 defaults in a tax year). Additional penalties may also become due if the business pays more than 6 months and 12 months late but this does not apply in this case.

(c) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
If an employer usually pays less than £1,500 per month in PAYE to HMRC it can apply to make quarterly payments to HMRC.	☑	☐
A Full Payment Submission must be submitted to HMRC if an employer makes statutory payments such as Statutory Sick Pay to its employees.	☐	☑
Employment allowance can reduce an employees National Insurance liability by up to £4,000 for the tax year.	☐	☑

- The first statement is true.
- The second statement is false. An Employer Payment Summary (not Full Payment Submission) must be submitted to HMRC, if an employer makes statutory payments such as Statutory Sick Pay to its employees.
- The third statement is false. Employment allowance can reduce an employers (not employees) NIC liability by up to £5,000 (not £4,000) for the tax year.

(d) Complete the following sentences.

(2 marks)

Total PAYE due to HMRC for the tax month ended 5 May 2024 is £**10948.22**.

If the business pays HMRC electronically, the latest date it must pay any PAYE owed to HMRC is **22 May 2024**.

Workings

Payroll details:	**£**
Income tax	5,399.81
Employers National Insurance	3,919.90
Employees National Insurance	2,950.65
Employment Allowance	-1,322.14
Total PAYE due to HMRC	10,948.22

The payment date for monthly payment of PAYE is by the by the 22nd following the end of each tax month (if paying on-line), or the 19th following the end of each tax month (if paying by post). This information is in your AAT reference material and is available in your exam.

(e) Complete the following sentences.

(2 marks)

Taxable pay is gross pay of an employee less any tax-free personal allowance.

Net pay is the total amount actually received by an employee.

- Gross pay (or total pay) is the total amount earned by an employee before any deductions are taken away.
- Taxable pay is gross pay of an employee less any tax-free personal allowance.
- Net pay is the total amount actually received by an employee.

Task 8 - Solutions (8 marks)

This task is about reporting information on VAT and payroll.

(a) Identify which one of the following would not be an appropriate response to the purchase managers query.

(1 mark)

Respond that I don't know the answer to this query and I will refer this to my line manager	☐
The rate of VAT is normally 20%, so advise the purchases manager about this information	☑
Respond that I cannot provide advice without instruction from someone who is competent	☐

Accepting a task without possessing the adequate expertise or experience to carry out the task assigned would be a breach of professional competence and due care. You must know when it is appropriate to seek expertise about VAT matters. You must be able to identify when a query about VAT is beyond your current experience or expertise and to communicate this to your line manager. You can undertake a task or provide advice if supervised, instructed or your work reviewed by someone who is competent.

(b) Identify two sources of information to find the correct national insurance rates from April 2024.

(2 marks)

A WhatsApp college group for AAT studies	☐
HMRC website	☑
A junior colleague who is enthusiastic about tax	☐
External accountants who act for the business	☑

(c) Complete the following sentences.

(2 marks)

The VAT Return will be sent to be reviewed by the **Financial accountant**.

The VAT Return will be sent to be authorised by the **Business owner** before it is sent to HMRC.

(d) Identify whether the following statements about data protection principles relating to employees are true or false.

(3 marks)

	TRUE	FALSE
An employer must follow ethical principles on data protection if it stores or uses personal information about its employees.	☐	☑
Employers can carry out a criminal record check for employees working with children or vulnerable adults.	☑	☐
The name and address of an employee cannot be kept by an employer without the employees permission.	☐	☑

- The first statement is false. An employer must follow strict laws (not ethical principles) on data protection if it stores or uses personal information about its employees.
- The second statement is true. Employers can carry out a criminal record check for roles that involve working with children or vulnerable adults, but not on a routine basis.
- The third statement is false. Such personal information can be kept without an employee's permission.