



The Chartered Tax Adviser Examination

November 2020

Suggested solutions

Module A VAT including Stamp Taxes

Answer 1

- Abi will be required to compulsorily register for VAT once her taxable turnover in the previous 12 months exceeds £85,000. 1
- If her taxable turnover is £8,000 per month, she will exceed the limit after 11 months (11 x £8,000 = £88,000). 1
- However, as Abi is making zero-rated supplies, she will be a repayment trader and therefore HMRC may grant exemption from registration. 1
- However, as a repayment trader, registration would (apart from the administrative burden) benefit her. 1

Answer 2

Input VAT relating to:

- Advertising the business in the local newspaper
- VAT on services is recoverable if incurred within 6 months prior to VAT registration. 1
- Food and drink for prospective customers at the business's launch party
- VAT on entertaining UK customers is blocked. 1
- A computer for use in the business
- VAT on goods purchased within 4 years prior to VAT registration is recoverable if still held at the date of registration. 1
- A car for use in the business
- Input VAT on cars is blocked where there is any private use. 1

Therefore, none of the pre-registration input VAT is recoverable.

Answer 3

1. The basic tax point is the date of delivery of 28 June 2020. 1
 - However, the actual tax point overrides this if an invoice was issued or cash was received before the basic tax point. 1
 - As a £1,200 deposit was received on 12 June 2020, tax point of the deposit is 12 June 2020. (NB. This would be deemed VAT inclusive, so £1,000 net). 1
 - As the invoice was issued within 14 days of the basic tax point, the tax point of the £2,500 (£3,500- £1,000) balance is 8 July 2020. 1
2. Therefore the output VAT to be reported on the VAT return for the quarter ended 30 June 2020 is $£(96,000 - 2,500) \times 20\% = £18,700$ 1

Answer 4

	£	£	
Output VAT			
Supplies to third parties ((£25,000+ £18,000) x 20%)		8,600	1
Intragroup supplies		0	1
Supplies to Drei Ltd (£2,500 x 20%)		500	1
		<u>9,100</u>	
Input VAT			
Purchases from third parties ((£5,000 + £2,000) x 20%)	1,400		1
Purchases from Vfier Ltd (£9,500 x 20%)	<u>1,900</u>		1*
		<u>(3,300)</u>	
VAT payable		<u>£5,800</u>	

*Import VAT recovered as VAT.

Answer 5

Conditions*:

Bertie's VAT reporting and payments must be up-to-date. 1

VAT exclusive taxable supplies must not be expected to exceed £1,350,000 in the next 12 months. 1

Operation of the scheme:

Bertie will be required to make nine monthly payments of VAT, starting at the end of the fourth month of the VAT year. 1

Each payment is equal to 10%** of Bertie's VAT liability for the previous year. 1

Bertie must submit his VAT return within two months of the end of the year along with any balance due. 1

* Any two relevant conditions.

** Credit given for three quarterly payments of 25%.

Answer 6

1 Flora must have supplied the goods and accounted for and paid the VAT due on the supply. 1

At least six months must have elapsed from the later of the supply being made or when the outstanding amount was due for payment. 1

The outstanding amount must have been written off in Flora's accounts. 1

2. The VAT bad debt relief that Flora can claim in the quarter ended 30 September 2020 is £5,000 x 1/6 = £833 1

Answer 7

Test 1	Total input VAT \leq £625 per month on average $\text{£}6,000/3 = \text{£}2,000$	1
	AND Exempt supplies \leq 50% of total supplies $\text{£}7,000/\text{£}28,000 = 25\%$	1
	Therefore Test 1 failed.	
Test 2.	Total input VAT less that directly attributable to taxable supplies \leq £625 per month on average $\text{£}6,000 - \text{£}(3,400 + 1,700) = \text{£}900/3 = \text{£}300$	1+1
	AND Exempt supplies \leq 50% of total supplies $\text{£}7,000/\text{£}28,000 = 25\%$	
	Therefore Test 2 passed and all the input VAT of £6,000 is recoverable.	1

Answer 8

The net error is $\text{£}42,800 + \text{£}16,700 = \text{£}59,500$.

A small error may be corrected in the next VAT return, which in this case is the return for the quarter ended 30 September 2020. 1

The error correction threshold is the higher of:

- £10,000 1
- 1% of turnover ($1\% \times \text{£}6.5 \text{ million} = \text{£}65,000$) but subject to an overall limit of £50,000 1

As the net error exceeds the threshold, HMRC's VAT Error Correction Team must be notified in writing. 1

Answer 9

1. Sale to a non-VAT registered customer in the EU, therefore the supply is standard rated. 1
 2. Sale to VAT registered customer in the EU, therefore the supply is zero-rated.
Glowbull Ltd must show the customer's VAT registration number on the invoice. 1
 3. Sale to a customer outside the EU, therefore the supply is zero-rated. 1
- Glowbull Ltd must retain evidence that goods have been removed from the UK. 1

Answer 10

	£	
1)		
Output VAT		
Clock: £(15,000 – 3,000) x 1/6	2,000	1
Painting: Sold at a loss, therefore nil	Nil	1
Ruby: £6,000 x 1/6	1,000	1
Input VAT		
Clock repair: £1,500 x 20%	<u>(300)</u>	1
	<u>£2,700</u>	
2) Under the global accounting scheme, the output VAT is calculated on the difference between the sale proceeds and the cost of all the goods sold during the period, as opposed to looking at individual items under the second-hand goods scheme.		1

Answer 11

1)
There is no Stamp Duty Land Tax payable on the transfer of the warehouse from Unoh Ltd to Dose Ltd as they form a group for SDLT group relief purposes as Unoh Ltd and Dose Ltd meet the 75% subsidiary test. 1

On the transfer of the office block from Unoh Ltd to Trezz Ltd, Stamp Duty Land Tax is payable as follows:

SDLT:	£	
£150,000 x 0%	Nil	1
<u>£75,000 x 2%</u>	<u>1,500</u>	1
<u>£225,000</u>	<u>£1,500</u>	

LBTT alternative:	£	
£150,000 x 0%	Nil	1
<u>£75,000 x 1%</u>	<u>750</u>	1
<u>£275,000</u>	<u>£750</u>	

2)
If Unoh Ltd accepts the offer to sell its shares in Dose Ltd, Dose Ltd will cease to be a group member. If this is within three years of the transfer of the warehouse, SDLT group relief will be withdrawn and the SDLT that would have been paid becomes chargeable. 1
1

Answer 12

1)
Transfers on divorce are exempt from Stamp Duty. 1

On the transfer of shares from Victoria to Harper, Stamp Duty is payable as follows:

£526,375 x ½% = £2,631, rounded up* to £2,635. 1+1*

2)
Harper should have submitted the stock transfer form by 30 July 2020. 1
The minimum penalty for late stamping is 10% x £2,635 = £263.5 rounded down* to £260. 1

*for rounding both figures.