

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Domestic Indirect Taxation

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Broadhurst Performing Arts is a registered charitable Trust, managed on a voluntary basis. It owns a small theatre and produces theatrical shows. The Trust is not registered for VAT and treats admission income as VAT exempt.

The Trust's Board is exploring purchasing a second theatre in a neighbouring town for £1 million (VAT exclusive). This theatre has been disused for several years and it will be used as a performing arts venue, with any surpluses being reinvested into the facility. The vendor has opted to tax the property, and the Trust will opt to tax the property on completion. The Trust has recently begun to incur legal and surveyor costs in respect of the theatre transaction. The theatre will also need refurbishment estimated at £500,000 excluding VAT.

In addition to its own productions, this theatre will be let to travelling performing arts charities to put on their productions. The charities will enter into a revenue share agreement, whereby tickets are sold by the Trust as agent of the performing arts charities. This will be evident on underlying customer documentation. Amounts due to the charities will then be remitted after retaining a pre-agreed commission amount.

The theatre building has several function rooms, which will be used to deliver courses covering topics such as stage design, lighting, camerawork and acting. A fee will be charged for the courses, though these will be delivered by members free of charge to the Trust.

There will also be a café which will be run by the entity which acquires (see below) the theatre. Refreshments will be consumed either in the café area, or at the theatre-goer's seat. Customers must show a ticket for a production on the day to purchase the refreshments.

The Trust's Board is considering two options:

- 1) For the Trust to acquire and operate the second theatre itself; or
- 2) To form a wholly owned limited company, Bform26 Ltd which would acquire, manage, and operate the second theatre and all associated income streams. The Trust would provide staff and management services to Bform26 Ltd in return for an annual charge and will pass on any acquisition costs already incurred as part of the first invoice. The Trust will continue to manage and operate the original theatre.

Requirement:

Discuss the VAT implications of the Trust Board's options for the acquisition and subsequent use of the second theatre, together with any recommendations for potential VAT savings.

(20)

2. Grimsby Publishing Ltd is a publishing company which is reviewing the VAT treatment applied historically to various income streams, including its core product, 'GPL Learning'.

GPL Learning is an online, fully automated tool, which allows subscribers to access Grimsby Publishing Ltd's database of educational e-books. It is accessible in return for an annual subscription via web browser. As part of the core offering, subscribers are also able to navigate this database using an integrated AI tool.

The table below shows historic GPL Learning sales for the calendar years to 2025. All income, including for "bolt-on" sales, is received evenly throughout the year.

| <u>Calendar year</u> | <u>GPL Learning sales</u> |
|--------------------------------|---------------------------|
| | £ |
| 2021 | 175,000 |
| 2022 | 198,000 |
| 2023 | 233,000 |
| 2024 | 296,000 |
| 2025 | 300,000 |
| 2026 (four months to 30 April) | 150,000 |

GPL Learning subscribers are also able to purchase the following bolt-ons.

E-reader and audio-visual bolt-ons

For a one-off cost, subscribers can buy a discounted physical e-book reader. Where this is offered to disabled subscribers, Grimsby Publishing Ltd pre-installs specialist software which is specifically required by the individual to make the e-reader accessible to that person.

Separately, for an additional annual cost, subscribers obtain online access to pre-recorded podcasts, lectures and soundbites relating to the wider topics covered by the e-book collection.

Where the subscriber opts for one, or both, of these bolt-ons, they will still be charged a single price on all relevant invoicing documentation.

The table below shows bolt-on sales. Sales of E-readers to disabled subscribers were 10% of E-reader sales each year.

| <u>Calendar year</u> | <u>E-reader bolt-on sales</u> | <u>Audio-visual bolt-on sales</u> |
|--------------------------------|-------------------------------|-----------------------------------|
| | £ | £ |
| 2021 | 11,000 | 10,000 |
| 2022 | 13,200 | 18,000 |
| 2023 | 13,200 | 25,000 |
| 2024 | 14,300 | 29,000 |
| 2025 | 16,500 | 30,000 |
| 2026 (four months to 30 April) | 6,600 | 15,000 |

Charity advertising contract

Last year, Grimsby Publishing Ltd entered into a contract with Project Nature UK, an environmental charity, which involves it selling advertising space on its GPL Learning platform. This allows the charity to promote its initiatives within online journals which relate to climate change research. To date, Grimsby Publishing Ltd has received £40,000 from Project Nature UK.

Grimsby Publishing Ltd treats all income as zero rated for VAT purposes, and files VAT returns monthly.

Requirement:

Discuss the VAT issues in relation to the above, including recommendations for addressing any errors identified. (15)

3. Schubert Tague LLP is a national law firm. The firm's HR department is currently reviewing existing employee benefits and looking to roll out several new incentive schemes.

Vehicles

An electric/hybrid car lease scheme to be made available to all employees. Under this scheme, a VAT registered leasing company called Schumacher Vehicles Ltd will charge the firm £1,200 per lease per month (VAT inclusive). Schubert Tague LLP will make salary deductions of £1,200 each month to employees but wants to understand the different VAT reporting options available.

To encourage take up of the scheme, Schubert Tague LLP will offer employees a 12-month interest free loan up to the value of £5,000 to be used to pay a third party to install an electric vehicle charging station at their home.

Under current proposals, the employee will commission the installation work at their own home. However, the firm is also considering covering the cost of installing the charging station by engaging with the providers direct rather than providing the interest free loan. Schubert Tague LLP would be invoiced directly by the installation provider under this alternate arrangement.

Schubert Tague LLP's IT staff visit its various UK branches and are occasionally seconded to clients. The firm is considering providing the employees with vans, which it will lease from Schumacher Vehicles Ltd. Employees will be able to drive the vans home for storage overnight. Unlike the car lease arrangement, the relevant employees will not be charged for the value of the van rental each month.

Recruitment

Schubert Tague LLP has recently recruited a new senior solicitor. The solicitor will not hold director status and currently lives elsewhere in the UK. Schubert Tague LLP has agreed to cover the following relocation costs:

- 1) Removal firm charges.
- 2) Maintenance costs relating to the solicitor's old home until it is sold.
- 3) Ongoing cleaning costs at the solicitor's new home.

Gym Membership

The firm is considering covering the cost of staff memberships to gyms close to the various offices. This will either be for all employees or as an exclusive perk for senior management only.

Schubert Tague LLP has a new partial exemption special method with HMRC under which it is entitled to recover 75% of residual input tax.

Requirement:

Explain the VAT issues arising from the above proposed incentive schemes (15)

4. TutoringU Ltd is a UK established education provider. It is thinking of offering its student and staff travel insurance, and will give them two options:

- 1) a summer policy which will last three months and may be booked up to two weeks before travel; or
- 2) an annual travel insurance policy.

The majority of TutoringU Ltd's students are resident in the UK; however, 25% are based overseas and these overseas students can purchase either travel insurance policy before they travel to the UK. All TutoringU Ltd's staff are resident in the UK.

To facilitate the new offering, on 1 June 2026 TutoringU Ltd will incorporate a new wholly owned subsidiary, Tutor Insurance Ltd. It intends to commence business immediately in the interest of selling as many of its summer insurance covers as possible before the overseas students travel to the UK.

The insurance will be arranged through a third-party provider Ensure Insurance Ltd; however, the staff and students will purchase directly from Tutor Insurance Ltd through its website.

There are two options for the annual policy:

- 1) The student or staff member will pay £160 to Tutor Insurance Ltd, with £140 being passed to Ensure Insurance Ltd and Tutor Insurance Ltd retaining a £20 arrangement fee. In this case, the student or staff member will receive an itemised invoice which details the transactions.
- 2) Tutor Insurance Ltd will not charge a fee to each student or staff member but will instead pass the premium receivable under the insurance contract of £160 to Ensure Insurance Ltd. Each month Ensure Insurance Ltd will total the number of policies sold by Tutor Insurance Ltd and pay it £20 for each sale.

Staff must pay in full regardless of their choice of policy. Students must pay in full for their summer policy, but for the annual policy, can choose to pay either in full, or in five monthly instalments with a 2% interest charge by Ensure Insurance Ltd. In the instalment case, Tutor Insurance Ltd would receive its fee out of the first instalment.

Tutor Insurance Ltd is also considering offering gadget cover with its travel insurance policies.

Requirement:

Discuss the Insurance Premium Tax implications of the above proposals and the best option for the annual policy.

(15)

5. Cycle for Good Ltd owns and operates a velodrome in central England which it allows individuals, schools and clubs to use to practice cycling. The velodrome has been operating since 2022, and Cycle for Good Ltd is registered for UK VAT as its annual sales are £700,000. It is possible for schools and clubs to have either shared or exclusive use of the velodrome, for example:

- 1) A local adult cycling club hires the velodrome exclusively on the first Wednesday of every month from 19:00 – 20:30. During this time, a Cycle for Good Ltd employee opens and closes the velodrome for the cycling club. The club has sole use of the velodrome during this time and usually has this time slot pre-booked and paid for three months in advance.
- 2) A local school hires the velodrome exclusively for three hours every Friday in the months of March, April and May to host a district schools competition at all school age groups.

Cycle for Good Ltd also offers personal lessons to individual adults and children for a fee. In addition, there is a cycling clothing shop within the velodrome centre which sells both adults and children's cycling clothing along with cycling shoes and helmets. Adults and children can hire professional bikes, helmets and cycle shoes for use during their velodrome session for a fee.

There is a café within the velodrome which is operated by an independent party. Cycle for Good Ltd charge a small rental fee of £300 per month to the operator of the café.

Cycle for Good Ltd has recently purchased a local hotel in Scotland in an area where there is a high interest in cycling and mountain hiking. Cycle for Good Ltd is considering planning a cycling holiday to Scotland and intends to offer this in its own name to local adult clubs. No children will be allowed on the holiday. The holiday will include travel by coach to Scotland, accommodation, meals in Scotland, tickets to a local football match and finally travel back to England. With the exception of the hotel, all other parts of the trip will be bought in from third party providers.

Cycle for Good Ltd has been treating all its supplies as standard rated.

Requirement:

Discuss the VAT liability of the current and proposed activities of Cycle for Good Ltd. (20)

6. Elite Home Builders Ltd is a UK based VAT registered company involved in property development. It is interested in acquiring a nine-bedroom manor house and estate known as Yellowacre from Oliver, a local farmer in the area for £3 million. Oliver exercised an option to tax in 2004 over both the manor house and surrounding estate and he intends to charge UK VAT on the sale to Elite Home Builders Ltd.

Oliver operated Yellowacre as a wellbeing retreat, but business dropped after a town bypass road was built next to it in 2010. In 2014 Oliver stopped using Yellowacre and it became derelict. Oliver remained VAT registered due to some taxable farming activities.

The 10 acres of surrounding gardens have become overgrown and the access road will need to be reconstructed due to neglect. It is estimated the reconstructed access road will cost £30,000 and it has been suggested that Oliver will complete this work and then recharge it to Elite Home Builders Ltd and this is currently how the legal documents have been drafted. Elite Home Builders Ltd is wondering if it would be beneficial for it to carry out these works instead after the purchase.

Once bought, Elite Home Builders Ltd plan to convert Yellowacre into four self-contained apartments and sell them to the public. This will consist of three two-bedroom apartments and a single large penthouse apartment on the top floor of the building. All apartments will include kitchen units, carpets and light fixings. Oliver has negotiated that he will receive 6% of future sales proceeds from the apartments.

Elite Home Builders Ltd's CEO, David has resided in Dubai for the last five years, but his parents are getting elderly and he wants to move closer to them. He is considering purchasing the penthouse apartment at market value. He intends to keep his Dubai residence and rent this out as an investment.

All figures are exclusive of VAT.

Requirements:

Explain:

- 1) **The Stamp Duty Land Tax consequences of the proposals.** (10)
- 2) **The VAT implications of the proposals. You are NOT required to discuss the application of the VAT reverse charge for construction services.** (5)

Total (15)