APS MAY 2026: VAT – ASSESSMENT NARRATIVE

Structure

A simple Pass or Fail will be awarded.
In determining whether a Pass or Fail is awarded the following will be considered:

1.	Overall format
2.	Introduction and Conclusion
3.	Clear layout with headings
4.	Flow of answer
5.	Appropriate style
6.	Grammar and spelling
7.	Appropriate calculations
8.	Lack of irrelevant material

See detailed guidance on what will amount to a MINOR fault or a MAJOR fault.
For each of the headings above, a candidate will receive a single result of NO fault, MINOR fault or MAJOR fault. Thus 4 MINOR faults in one heading will not result in 4 MINOR faults. They will either be graded as 1 MINOR fault or if, cumulatively, they are sufficiently serious, as a MAJOR fault.
A candidate will pass Structure if they have either:

1) NO MAJOR faults; or
2) 1 MAJOR fault and no more than 3 MINOR faults.

A candidate will fail Structure if they have either:

1) Two or more MAJOR faults; or
2) One MAJOR fault and 4 or more MINOR faults.

Identification and application

The following are the relevant topics for assessment with their weightings:

1.	**Option 1: VAT 30%**	Mixture of supplies being made from Hub: SR; ZR; E – identify Land-related vs facilities hire to PTs PTs probably cannot recover input VAT CGS asset PTs may benefit from education exemption Partial exemption calculations required CGS monitoring and adjustments Tills should be set up to deal with different liabilities etc Pricing to PTs will need to reflect VAT position
2.	**Option 1: CT 10%**	Assume incorporation and therefore CT will apply Identify rate of CT, and potential for loss relief Year 1 and c/f Identify capital allowances on new build Identify possible restriction of cap allowances on equipment which will be hired to PTs Note positive cashflow arising from loss relief and CAs Care needed re: PT equipment hire and CAs Brief mention of potential CGT on sale of land
3.	**Options 1 & 2: SDLT 10%**	Identify SDLT on land purchase in Option 1 Identify SDLT issue on transfer to Propco Apply SDLT to Option 1 with correct liability Apply SDLT to Option 2: Para 18, FA 2003 and "SLP" per Para 20 for sale to connected company Correctly conclude no SDLT charge under Option 2
4.	**Option 2: VAT 35%**	Identify ZR construction and therefore IV only on materials and professional costs Identify E residential and SR holiday lettings Identify significant irrecoverable VAT Identify scope for ZR D&B contract or BB 100/09 planning opportunity.

		Apply by calculating total VAT on construction and estimating irrecoverable element Apply by outlining Propco method and triggering of grant of major interest to connected party, thus securing 100% relief
5.	**Option 2: Direct Tax on Sale to Propco IT/CGT 10%**	Identify accounting and income tax issues on inclusion of land in partnership accounts: treat as trading stock, etc (brief discussion) Identify income tax issue on disposal of flats to Propco, esp MV to connected party Identify Incorporation Relief for CGT on Propco disposal Apply by showing no real issue on bringing land into partnership: attributed to Darius and Iskander's capital accounts Apply by noting "dry" tax charge on sale to Propco Brief mention of risk of ATED
6.	**Option 2 CT 10%**	Identify CT arising on profits in Propco Apply by comparing to Income Tax and NICs, and note tax implications of extraction of value from Propco

A grade of 0, 1, 2, 3 or 4 is awarded for each topic. The weighting is applied to that grade to produce a weighted average grade.

<u>Relevant Advice and Substantiated Recommendations</u>

1.	**Comparison of Option 1 and Option 2: VAT 30%**	*Question: Which Option gives the best return after accounting for VAT? Advice: How VAT will affect the returns expected for each Option* 1) Weigh up the input VAT position for both Options; 2) Recommend VAT planning for Option 2 can ameliorate the position, but note continued requirement for partial exemption calculations, etc, even using Propco or Devco ; A special method should assist in respect of Option 1 (less need with Option 2). No need for prior approval in first year. Advise on set up costs of VAT saving potentials
2.	**Comparison of Option 1 and Option 2: Other Taxes IT, CT 30%**	*Question: Which Option gives the best return after accounting for other taxes? Advice: How direct taxes will affect the returns expected for each Option* 1) Advise of the interaction with direct taxes and possible "dry charge" to tax with Propco IT/CGT, potentially avoided by Incorporation Relief and CGT approach; or by alternate use of a Devco.; 2) Advise that CT will apply to profits for both Options, but advise that Capital Allowances and loss relief are available for Option 1 and not for Option 2; 3) Advise that monies extracted personally will be subject to IT in both Options and recommend consideration of other income sources in planning dividends, salary, etc.
3.	**Comparing the Options as they relate to commercial returns and family relations 40%**	*Question: Which Options is least risky from a commercial perspective, and which Option is most compatible with good family relations? Advice: Option 2 offers an additional £1 million of pre-tax returns in the first three years, and is expected to be profitable at a much earlier stage. Moreover, the expected return on investment is much higher than for Option 1. Turning to family relations, while Option 2 is the preferred choice for Darius's family at this point in time, it is likely that a chance to pursue Option 1 may arise in the future.* 1) Advise that there seem likely to be three key flashpoints in the family over Option 1, which would not arise under Option 2. These three points are: a) the debt imposed on ZRID to buy the land; b) the cashflow impact of having to pay out Darius's capital account as he reduced his share to 5%; c) a sense of disloyalty to Uncle Zia and to the rest of the family in leaving them to manage as Darius left them with serious financial issues. 4) Recommend that if Option 1 is pursued, Darius finances it with bank debt initially, thereby

		taking on the debt risk himself and so matching the debt to the future cashflows. Recommend that any reduction in capital account is also financed by way of external debt. Recommend that Option 1 can always be revisited, using profits generated from Option 2, and being easier as Beth would be able to work in the Hub in future too 2) Advise that while Option 2 will require upfront borrowings, Option 1 will also require borrowings by ZRID Construction to enable a buy-out of the site and partnership shares. Recommend that Darius bears this in mind when discussing Option 1 with his family; 3) Advise that the financial risks with Option 1 are greater, leaving aside the question of debt, as it's an entirely new venture and goes beyond Darius's business experience to date. 4) Recommend that serious consideration is given to the more reliable financial returns from Option 2, including comparison of net pre-tax cashflow; net pre-tax profit margin; pre-tax return on investment: all favour Option 2, though Option 1 does not require any sharing of the proceeds. 5) Advise that "cutting losses" is much easier in Option 2 than in Option 1, since resale value and ease of disposal is much easier for newly-completed apartments than for a bespoke asset such as a "fitness Hub"; 6) Advise that the wide range of different activities and staff involved with Option 1 will create complication and management difficulties. Recommend Option 2 for now; 7) Advise that financial risk is a driver for incorporation with Option 1, whereas VAT is the driver with Option 2.

The final grade will be determined for this skill in the same way as for Identification and Application.
Credit will be given for other valid recommendations supported by appropriate reasoning.
Credit will be given for alternatives to the Suggested Solution, provided these are realistic, commercial, and supported by appropriate reasoning.