



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# The Chartered Tax Adviser Examination

May 2019

Suggested solutions

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## Module A VAT and Stamp Taxes

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Answer 1

Kreazor Ltd exceeds the VAT registration threshold of £85,000 under the historic test at 31 March 2019 when its taxable turnover since 1 July 2018 is £96,000 ((6 x £10,000) + (3 x £12,000)). 1

Kreazor Ltd must notify HMRC by 30 April 2019 and registration will be effective from 1 May 2019. 1

Under the future test, on 1 April 2019, Quixxo Ltd expects to exceed the VAT registration threshold in the next 30 days alone and must therefore notify HMRC by 30 April 2019 and registration will be effective from 1 April 2019. 1+1

1  
Max 5 marks

Answer 2

The input VAT on the purchase price of building is £800,000 x 20% = £160,000. 1

The building is sold in the year ended 31 March 2019 which is in year 7 of the 10-year adjustment period. 1

The sale adjustment is therefore £160,000/10 x (0% - 85%) x 3 = £40,800 repayable to HMRC. 3

Answer 3

Sophie's flat-rate percentage will depend on whether she is a limited cost trader. She will be a limited cost trader if her VAT inclusive purchases of relevant goods for the quarter are less than the higher of: 1

£1,000/4 = £250 or 1

2% of VAT inclusive turnover for the quarter: £7,500 x 1.2 x 2% = £180. 1

VAT inclusive purchases are £175 x 1.2 = £210. 1

As Sophie is a limited cost trader, her VAT payable for the quarter is:

£7,500 x 1.2 x 16.5% = £1,485. 1+1

Max 5 marks

Answer 4

Input VAT relating to:	£	£	
Standard-rated supplies	18,000		
Zero-rated supplies	2,000		
Exempt supplies		8,000	
Unattributable			
<u>£150,000 + £25,000 / (£150,000 + £25,000 + £22,000) = 89%</u>			3
89% x £6,000	5,340		
11% x £6,000		660	
	<u>£25,340</u>	<u>*£8,660</u>	
*De minimis failed as £8,660 > £7,500 pa			1
Therefore input VAT recoverable	25,340		
Input VAT recovered during the year	<u>(27,850)</u>		
Annual adjustment (= VAT <u>repayable</u> to HMRC)	<u>(£2,510)</u>		1

Answer 5

The provision of legal services to AllesDort GmbH is a <u>business to business (B2B)</u> supply and therefore the place of supply is deemed to be where the <u>customer is located</u> , in this case in Germany.	1	1
The supply is <u>outside the scope of UK VAT</u> .	1	
The provision of legal services to Juan Mendoza is a <u>business to consumer (B2C)</u> supply and therefore the place of supply is deemed to be where the <u>supplier is located</u> , in this case in the UK.	1	1
Therefore, UK VAT is charged as normal by Forreena Ltd (at the standard rate).	1	
		<i>Max 5 marks</i>

Answer 6

Voluntary deregistration is a <u>deemed supply</u> for VAT purposes.	1
Wendy must complete a <u>final VAT return</u> and account for output VAT on assets held on the last day of registration on which a <u>deduction for input VAT</u> has previously been claimed.	1
The valuation of the assets will be based on the cost of purchasing <u>replacement goods</u> (taking into account the age and condition).	1
However, if the VAT on the deemed supply is <u>no more than £1,000</u> , it need not be paid.	1

Answer 7

	£	£	
<b>Output VAT</b>			
Standard-rated sales to UK customers (£62,000 x 20%)		12,400	1
Standard-rated sales to customers in the EU:			
- VAT registered business customers (£21,000 - outside the scope of UK VAT)		0	1
- Non VAT registered customers (£9,000 x 20%)		1,800	1
Standard-rated purchases from VAT registered suppliers in the EU			
£6,000 x 20%		1,200	
		<u>15,400</u>	
<b>Input VAT</b>			
Standard-rated purchases and expenses in the UK (£30,000 x 1/6)	5,000		1
Standard-rated purchases from VAT registered suppliers in the EU	<u>1,200</u>		1*
		<u>(6,200)</u>	
VAT payable		<u>£9,200</u>	

\* for £1,200 appearing as reverse charge.

Answer 8

Information needed in relation to the workshop:

The age of the workshop on 1 December 2018, and if it is <u>more than three years old</u> , whether the <u>option to tax has been exercised</u> .	1	1
If the workshop is less than three years old or the option to tax has been exercised, the freehold transfer is <u>taxable</u> , subject to the TOGC rules.	1	
Taxable land cannot be treated as part of a TOGC unless <u>James has made a valid option to tax the workshop and notified this on or before 1 December 2018</u>	1	1

### Answer 9

Companies can form a VAT group if one of them controls the other(s) (or they are under common control) and each company has a fixed establishment in the UK. 1  
1

Ricxter Ltd and Allioute Ltd can form a VAT group but not Tyleze Inc as it is resident overseas and not Chizzlotte Ltd as it is not controlled by Ricxter Ltd. 1  
1

It may not be beneficial for Ricxter Ltd and Allioute Ltd to form a VAT group because Allioute Ltd is a repayment trader as it makes wholly zero-rated supplies and therefore the cashflow advantage of it completing monthly returns would be lost. 1

### Answer 10

	£	
1. Output VAT for the quarter ended 31 March 2019		
Standard-rated VAT inclusive purchases : <u>£80,000 x 1.2</u>	96,000	1
<u>£96,000/£96,000 + £54,000 = 64%</u>		1
64% x £240,000	153,600	1
Output VAT = £153,600 x 1/6	25,600	1
2. The annual adjustment is carried out following the end of the VAT year and calculates the output VAT due based on total purchases and sales for the year. This amount is then compared to the total output VAT paid on the four quarterly returns and any under or over payment is accounted for.		1

### Answer 11

	£	
Gift of shares – no Stamp Duty on gifts.		1
'Gift' of share of residential property: consideration = £275,000*		1
SDLT:		
£125,000 x 3%**	3,750	1
£125,000 x 5%	6,250	1
<u>£25,000 x 8%</u>	<u>2,000</u>	1
<u>£275,000</u>	<u>£12,000</u>	

\*The chargeable consideration is the existing liability assumed.

\*\*The rates are increased by 3% on the purchase of an additional residential property for consideration of £40,000 or more.

	£	
LBTT alternative:		
£145,000 x 0%		
£105,000 x 2%	2,100	1
<u>£25,000 x 5%</u>	<u>1,250</u>	1
<u>£275,000</u>		
Additional Dwelling Supplement (ADS) payable on whole purchase price of £275,000 x 3% - not exempt from ADS due to consideration being provided	8,250	1
	<u>£11,600</u>	

Answer 12

Where an interest in a single dwelling worth more than £500,000 is sold to a non-natural person, for example a company, the rate of Stamp Duty Land Tax is 15%. 1+1  
1

Therefore, Stamp Duty Land Tax is  $15\% \times \text{£}1.5 \text{ million} = \text{£}225,000$  1

This is payable by Percay Ltd by 23 February 2019. 1+1  
*Max 5 marks*

LBTT alternative:

Where an interest in a dwelling is sold to a non-natural person, for example a company, the Additional Dwelling Supplement (ADS) applies. 1+1  
1

	£	
£145,000 x 0%		
£105,000 x 2%	2,100	
£75,000 x 5%	3,750	
£425,000 x 10%	42,500	
£750,000 x 12%	90,000	
£1.5 million x 3%	45,000	
	<u>183,350</u>	1

This is payable by Percay Ltd by 23 February 2019. 1+1  
*Max 5 marks*