

The Chartered Institute of Taxation

Awareness

Module A: VAT including Stamp Taxes

May 2024

Suggested answers

Answer 1

- 1) Jane is eligible to join the Flat Rate Scheme as she has reasonable grounds to believe that her taxable turnover in the next year will be £150,000 or less. 1
- 2) VAT payable for the quarter ended 31 March 2024 under the Flat Rate Scheme would be 13% of Jane's tax inclusive turnover, so £24,000 x 120% = £28,800 x 13% = £3,744. 1+1*
- Otherwise, Jane's VAT payable would be 20% x £(24,000 – 3,000) = £4,200. 1
- Based on the information for the quarter ended 31 March 2024, Jane would benefit from joining the Flat Rate Scheme. 1

*** For no deduction for input VAT under the Flat Rate Scheme.**

Answer 2

- Pluff Ltd: the tax point of the continuous supply is the fifteenth of the month when the cash is received, as this is earlier than the date the invoice is issued. 1
1
- Steven: the basic tax point of the service provided to Steven is the date the services are completed, which is 30 January 2024. 1
- However as the deposit was received earlier, the actual tax point of the deposit is 27 December 2023. 1
- As the invoice was issued within 14 days of the basic tax point, the tax point of the balance due is 6 February 2024. 1

Answer 3

- The input VAT on the purchase price of the car is blocked as there is some private use. 1
- The input VAT on the delivery charge is also blocked as the purchase of the car is a single supply and the delivery charge is incidental to the main supply of the car. 1
- Insurance is an exempt supply so there is no input VAT to recover. 1
- Fandangio Ltd can recover all the input VAT on the cost of the fuel, but must charge output VAT using a fixed fuel scale charge on the deemed supply of fuel for private journeys. 1
Alternatively it could simply not recover any input tax on the fuel. 1

Max 5 marks available

Answer 4

- 1) Shazad has supplied the goods and services and has accounted for and paid the output VAT to HMRC; and 1
- The debt has been written off in Shazad's accounts; and 1
- The value of the supply being written off is not more than the normal selling price; and 1
- At least six months have elapsed since the later of the date of the supply and the due date for payment. 1
- 2) The amount of bad debt relief that Shazad can claim in the quarter ended 29 February 2024 is therefore $\frac{1}{6} \times \pounds(4,800 + 7,200) = \pounds2,000$. 1

Answer 5

	£	
<u>Output VAT</u>		
Sales to UK VAT registered businesses: $\pounds22,000 \times 20\%$	4,400	1
Sales to VAT registered businesses in the European Union (EU) – zero rated	0)1
Sales to individuals in North America – zero rated	0)
Reverse charge on provision of consultancy services – VAT registered supplier in the EU: $\pounds10,000 \times 20\%$	2,000	
<u>Input VAT</u>		
Purchases and expenses – UK VAT registered suppliers: $\pounds6,600 \times 20\%$	(1,320)	1
Reverse charge	(2,000)	1*
VAT payable by 7 March 2024	<u><u>£3,080</u></u>	1

*** For the reverse charge appearing as both output VAT and input VAT**

Answer 6

Howwzer Ltd is allowed to voluntarily deregister for VAT as its expected taxable turnover in the next twelve months is expected to be no more than $\pounds83,000$. 1

Output VAT on deemed supply:	£	
Standard rated stock for resale: $\pounds800 \times 75\% \times 20\%$	120	1
Computers and office equipment: $\pounds1,800 \times 20\%$	360	1*
Car with private use	Nil	1
	<u><u>£480</u></u>	

As this amount is no more than $\pounds1,000$ it need not be paid, therefore VAT payable: Nil 1

*** Replacement cost is VAT exclusive so 20%.**

Answer 7

- A small error (\leq £10,000) may be corrected on the next VAT return unless the error was deliberate. 1
- HMRC's VAT Error Correction Team must be notified of the error in writing. 1
- Morgana will suffer a penalty based on the potential lost revenue of £9,500.
For a deliberate but not concealed error the maximum penalty is $70\% \times £9,500 = £6,650$. 1
- The minimum penalty for an unprompted disclosure is $20\% \times £9,500 = £1,900$. 1
- Interest will also be charged by HMRC on the underpayment of VAT. 1

Answer 8

- 1) It is a supply of goods or services. 1
- 2) It takes place in the UK. 1
- 3) It is made by a taxable person. 1
- 4) It is made in the course or furtherance of any business being carried on by that person. 1
- 5) It is a taxable supply. 1

Answer 9

- As the previous owner of the land had exercised the option to tax, the land is standard rated. 1
- The architect fees are standard rated. 1
- The building costs are zero rated. 1
- The sales of the freehold of the two houses to Peggy are zero rated. 1
- Peggy's rental activities are exempt. 1

Answer 10

	<u>Taxable</u>	<u>Exempt</u>	
	£	£	
Input VAT directly attributable to supplies:	29,000	2,750	1
Residual input VAT:			
£(400,000/440,000) = 91% (rounded up)			1
91% x £1,600	1,456)1
Balance of 9% x £1,600		144)
		<u>£2,894</u>	
<u>Not de minimis</u> as although £2,894 is:			
≤ 50% of total input VAT, it is			1
> £625 per month on average.			1
Total input VAT recoverable	<u>£30,456</u>		

Answer 11

$0.5\% \times \pounds(50,000 + 7,500) = \pounds287.50$	1+1
Rounded up to nearest £5 = £290	1
Document presented for stamping less than 12 months late	1
The penalty is therefore the lower of the Stamp Duty of £290 and £300, so £290.	1

Answer 12

Option 1: No first-time buyers' relief as cost > £625,000, so normal residential property rates:

£		£	
250,000	x 0%	0	1
410,000	x 5%	20,500	1
<u>£660,000</u>		<u>£20,500</u>	

Option 2: First-time buyers' relief on the flat so no SDLT due as cost ≤ £425,000. **1**

Commercial property rates on the shop:

£		£	
150,000	x 0%	0	1
95,000	x 2%	1,900	1
<u>£245,000</u>		<u>£1,900</u>	

Alternative answer Scottish LBTT

Option 1: First-time buyers' relief:

£		£	
175,000	x 0%	0	1
75,000	x 2%	1,500	
75,000	x 5%	3,750	
335,000	x 10%	33,500	
<u>£660,000</u>		<u>£38,750</u>	1

Option 2: First-time buyers' relief on the flat:

£		£	
175,000	x 0%	0	
75,000	x 2%	1,500	
75,000	x 5%	3,750	
95,000	x 10%	9,500	
<u>£420,000</u>		<u>£14,750</u>	1

Commercial property rates on the shop:

£		£	
150,000	x 0%	0	1
95,000	x 1%	950	1
<u>£245,000</u>		<u>£950</u>	