

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

May 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 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.

You are Sam Turner, tax manager at Widford Westmill LLP, a firm of Chartered Tax Advisers. You have received a letter from Amari Adoyo (**EXHIBIT A**) who has recently become a client of the firm. Amari is a renowned sculptor, born in Patribea, who took UK citizenship in 2007.

War has broken out in Patribea. Moved by the humanitarian crisis, Amari has decided to raise funds for the Patribean Relief Appeal through a sale of “Simba”, one of his sculptures. A meeting has been arranged between Amari, Billings LLP, a firm of Auctioneers, and Caloseni Foundation, the charity leading the Appeal, to discuss how best to structure the proposal.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Amari Adoyo

EXHIBIT B: Letter from Billings LLP

EXHIBIT C: Notes on “Simba”

EXHIBIT D: Pre-seen information

Requirement:

Prepare a report for Amari, advising on the tax issues raised by the proposal and recommending how best to structure the proposal.

EXHIBIT A

Letter from Amari Adoyo

Sam Turner
Widford Westmill LLP
The Old Corn Exchange
Southbury
Oldshire
SB1 4SE

Hadbridge Farm
Harlingford
Oldshire
SB13 3BD

3 May 2023

Dear Sam

Patribean Relief Appeal

We spoke by phone of my wish to support this Appeal.

Last year was exceptional, with the sale of two major commissions and this year looks promising too. I have decided to raise funds for the Appeal through an auction sale of "Simba", one of my bronzes. I will use Billings LLP, the Auctioneers, who usually handle my work. Caloseni Foundation, which I have supported in the past, is leading the Appeal. Caloseni Foundation is established in Belgium but has assured me they will do whatever is necessary to facilitate my gift and ensure that funds are directed to where they are needed most.

I enclose a letter from Billings LLP (**EXHIBIT B**) confirming their willingness to act and estimating a hammer price of £150,000. A meeting is to be held next week at their offices. Jean-Claude Meertens, Caloseni Foundation's Appeal Director, will fly over from Brussels to attend. We will consider a couple of options:

- 1) I sell "Simba" through the auction and gift the net proceeds to Caloseni Foundation for the Appeal.
- 2) I gift "Simba" to Caloseni Foundation, who will sell the sculpture through the auction.

You mentioned tax may be an issue. Naturally, I want to achieve the maximum amount for the Appeal at the lowest cost to myself. So, obviously if there are any other potential options that you can suggest which may produce a better return, I would be interested to hear about them. I appreciate I have not provided much information but an understanding of the potential amount available based on Billings LLP's valuation would be useful.

Please can you prepare a report for me to consider and discuss at the meeting, with your recommendations.

You asked for details of "Simba" and how it was treated as regards my business. The story goes back many years and I am not sure of some of the details since my old friend, Musa Kanzi, who used to help me with my tax returns, sadly passed away recently. But I enclose some Notes (**EXHIBIT C**), to the best of my recollection, which I hope will be of some help.

I look forward to receiving your report and hope you will also be available to attend the meeting at Billings LLP.

Yours sincerely

Amari

EXHIBIT B

Letter from Billings LLP

Mr Amari Adoyo
Hadbridge Farm
Harlingford
Oldshire
SB13 3BD

Billings LLP
Auctioneers and Dealers in Fine Art
10 Motcomb Square
London
SW1 4XY

27 April 2023

Dear Amari

Bronze Sculpture entitled "Simba"

I am writing to say that my firm would be delighted to undertake the sale of "Simba" through our Early Summer Auction in London.

I understand you created "Simba" from Patribean bronze. The sculpture depicts a crouching lion and weighs approximately 500 kilograms.

I understand you received an offer of £10,000 for the work in 2016. I am pleased to report that, since then, the prices achieved for your work have increased very significantly. Accordingly, I estimate a hammer price at auction of around £150,000. As your work is highly-regarded in the US, the sale could generate considerable interest from American collectors, which could further raise the price. To this end, we will ensure the sale is publicised through our New York office.

Our Terms of Business are enclosed. You will see that we charge a seller's commission of 10% of the hammer price, plus VAT at 20%. As seller, you would be responsible for the cost of detaching "Simba" from its plinth, transportation to our saleroom and insurance. A buyer's premium of 15% of the hammer price, plus VAT at 20%, is also charged to the successful bidder.

For eligible items, we are able to sell under the VAT Margin Scheme or, if so requested, under the Auctioneer's Scheme. I can provide further details if appropriate.

I look forward to meeting with you and Jean-Claude next week to discuss the sale further.

Yours sincerely

Mervyn

Mervyn Billing, Partner

EXHIBIT C

Notes on "Simba"

About the time I came to this country, I imported some ingots of Patribean bronze (weighing about 500 kilograms). This was to remind me of my birthplace and maybe, one day, to create a bronze sculpture. I don't recall what I paid for the metal, but I have looked up the price of such metal in 2004. It was around £1,000 a tonne. I recall freight and import charges were about £1,500, but I no longer have any documents.

In later years, I drew up sketches and made a maquette (scale-model). I regarded this project more as a hobby than as part of my developing business.

It was not until moving to Hadbridge Farm that I installed a big enough workshop and foundry to handle such a large-scale work. In 2011, I made the mould and cast "Simba" using the "lost-wax" process. The sculpture was finished and polished by the end of that year. At that time "Simba" remained in my workshop as I could not find a suitable piece of stone for the plinth.

Meanwhile, Georgina was helping me to create our gardens and the Sculpture Park.

In summer 2015, I purchased a suitable piece of sandstone for a plinth, which was cemented into the Sculpture Park and "Simba" was fixed on to it. Since then, "Simba" has been displayed there along with other examples of my work. Some of these sculptures were for sale and over the years have been bought by collectors. All the sculptures were insured together under a single policy.

In March 2016, the Patribean Ambassador visited Hadbridge Farm. He admired "Simba" and offered me £10,000 for it. I did not sell because I had great affection for the sculpture and regarded "Simba" as part of my own collection.

I should perhaps mention that in May 2016, vandals broke into the Sculpture Park and spray-painted "Simba" and some of the other sculptures. I spent £2,000 plus VAT on having them cleaned. We immediately employed Falconeye Ltd to instal a security system costing £9,500 plus VAT. All these costs were treated as expenses of the business.

Despite my affection for "Simba", I believe selling it now is the right thing to do to help the Patribean Relief Appeal.

I have received a quote totalling £10,000 plus VAT to remove Simba from its plinth, pack and transport it to Billings salerooms.

EXHIBIT D

Pre-seen information

Client Name

Amari Adoyo

Address

Hadbridge Farm
Harlingford
Oldshire
SB13 3BD

Contact

07878 300101

amari@artmail.com

Client background

Amari was born at Magos, Patribea, on 11 January 1983. He emigrated to the UK in 2004 and was granted British citizenship in 2007. He is UK tax resident and domiciled. He was married in 2008 to Georgina St. Clair (born London 15 May 1985). They have no children.

Business

Amari is in business as a sole trader. He is a renowned sculptor, working in wood and stone and by casting metal using the "lost-wax" process. He was shortlisted for the Epworth Prize in 2010 and was the Hopwood Prize winner in 2016.

In 2010, Amari purchased Hadbridge Farm, Harlingford, as a family home and workplace. He immediately created a studio and workshop in the old hay barn and outbuildings. Between 2012 and 2016, he laid out the award-winning gardens, including a Sculpture Park of around one acre, where his sculptures are on display. Amari's works are sold, usually through auctions, to collectors worldwide. Some are displayed in galleries and public spaces.

The gardens at Hadbridge Farm are open to admit members of the public on two days each week in the summer and at other times by appointment. During opening hours, a café serves light refreshments and a gift shop sells gifts, stationery, posters and limited-edition miniatures of Amari's sculptures. Online sales are made throughout the year to customers in the UK, Europe and America.

Tax

UTR 81833 12345

NI No. YY09 63 85A

Amari's self-assessment return for 2022/23 is in the course of preparation.

VAT

Amari is registered as a sole trader, with effect from 1 January 2011, under Registration No. 227 4321 88. Input VAT is fully recovered. Returns are made for the quarters ending on the last days of March, June, September and December. The Point-of-Sale Scheme is used to account for shop and café takings. Amari recently registered for Making Tax Digital, using Thyme software.

Extracts from the draft Accounts for the year ended 31 March 2023

Income & Expenditure

	<u>2022/23</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2021/22</u>
	£	£	£	£
Income:				
Sales of artworks	1,014,000		540,000	
Admissions, shop and café	93,000		87,500	
Interest	10,250		6,500	
Total income		1,117,250		634,000
Less Expenditure:				
Cost of sales	84,250		67,350	
Insurance	32,500		29,000	
Overheads	27,500		25,000	
Total expenditure		144,250		121,350
Profit before taxation		<u>£ 973,000</u>		<u>£512,650</u>

Statement of Financial Position

	<u>2022/23</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2021/22</u>
	£	£	£	£
Fixed assets:				
Freehold land and buildings	5,000,000		4,900,000	
Plant and machinery	655,000		625,500	
Intangibles	40,000		37,700	
Total fixed assets		5,695,000		5,563,200
Current assets:				
Stock	2,250,000		2,350,750	
Debtors	105,000		67,500	
Cash	58,900		37,300	
Total current assets		2,413,900		2,455,550
Current liabilities:				
Amounts falling due within one year		11,650		13,450
Net assets		<u>£8,097,250</u>		<u>£8,005,300</u>
<u>Capital and Reserves</u>		<u>2022/23</u>		<u>2021/22</u>
		£		£
Accumulated Profit Reserves		8,097,250		8,005,300
Total Reserves		<u>£8,097,250</u>		<u>£8,005,300</u>