



(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

## The Chartered Tax Adviser Examination

2 May 2018

**AWARENESS** 

**Module A – VAT including Stamp Taxes** 

1. Jilly is a VAT registered trader. She purchased the following assets for use in her business during the quarter ended 31 March 2018:

|   | VAT exclusive |
|---|---------------|
| • | £             |
|   | 5,000         |
|   | 25,000        |

Computer equipment (used 10% privately by Jilly)
A car for use by an employee (40% private use by employee)

Jilly pays for all fuel for the car, both for business and personal journeys.

Briefly explain the VAT which Jilly may recover on each asset, and her options assuming she wishes to recover at least some of the VAT on the fuel.

| Computer equipment:                                  |  |
|--|--|
| <br>Sill will be able to recover 90% of the input    |  |
| VAT on the computer equipment. There is no           |  |
| requirement for a period of adjustment               |  |
| <br>under le capital goods scheme as the             |  |
| cost of he computer equipment was less               | and another discount to contract the second second |
| nan 650,000  |  |
|  |  |
| <br>Car # fuel:                                      |  |
| Input VAT on the purchase of the motor car is        |  |
| allowable to the extent that it is used for          |  |
| business purposes, i.e. 600 of the input VAT is      |  |
| recaxable.   |  |
| 3 chairs in respect of the firel:                    |  |
| i) reclaim none of the input unt an any of the       |  |
| hel purchased  |  |
| 2) only reclaim the input VAT on the fuel in respect |  |
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| of the business jauneys, Smit records           |          |
|---|----------|
| will need to be kept.                           |          |
| <br>3) Use HMRC approved fuel scale changes for |          |
|   |          |
| the business mileage                            |          |
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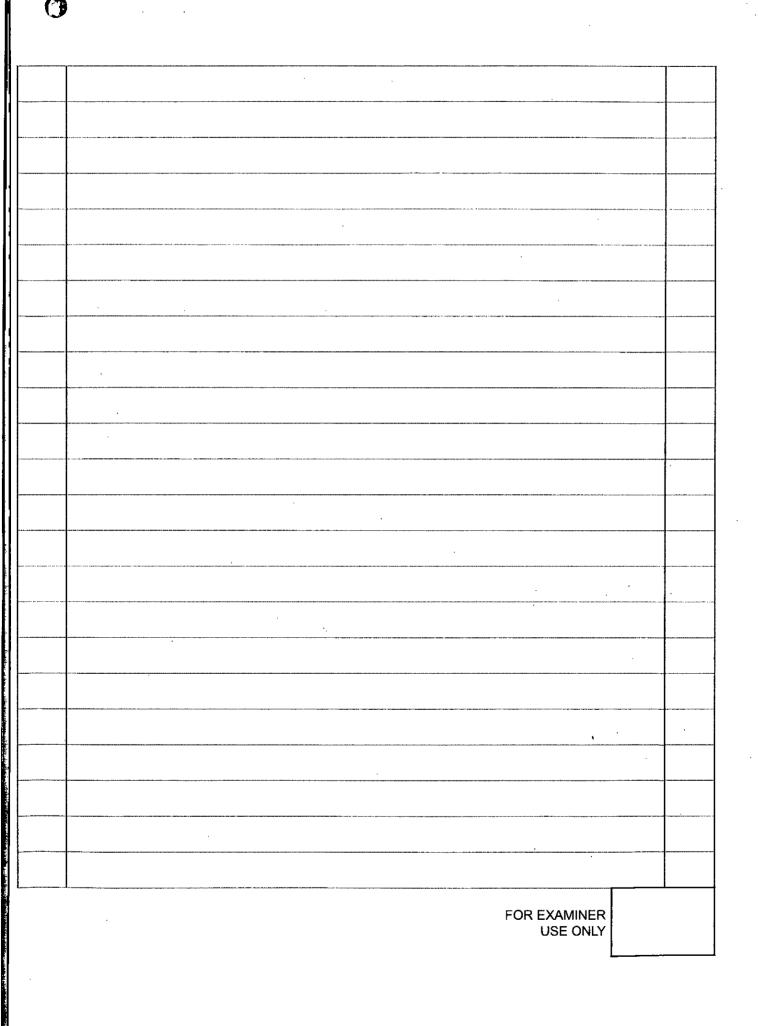




2. Julie is a clothes designer and registered for VAT in the UK. She is planning on moving to Italy for three months with her family. Whilst there, she has agreed to provide services to a fashion house and may also do some design work for private individuals, which she expects to amount to about £30,000.

Briefly explain whether the supplies made whilst Julie is in Italy will be subject to UK VAT, and how this may change depending upon Julie's actions.

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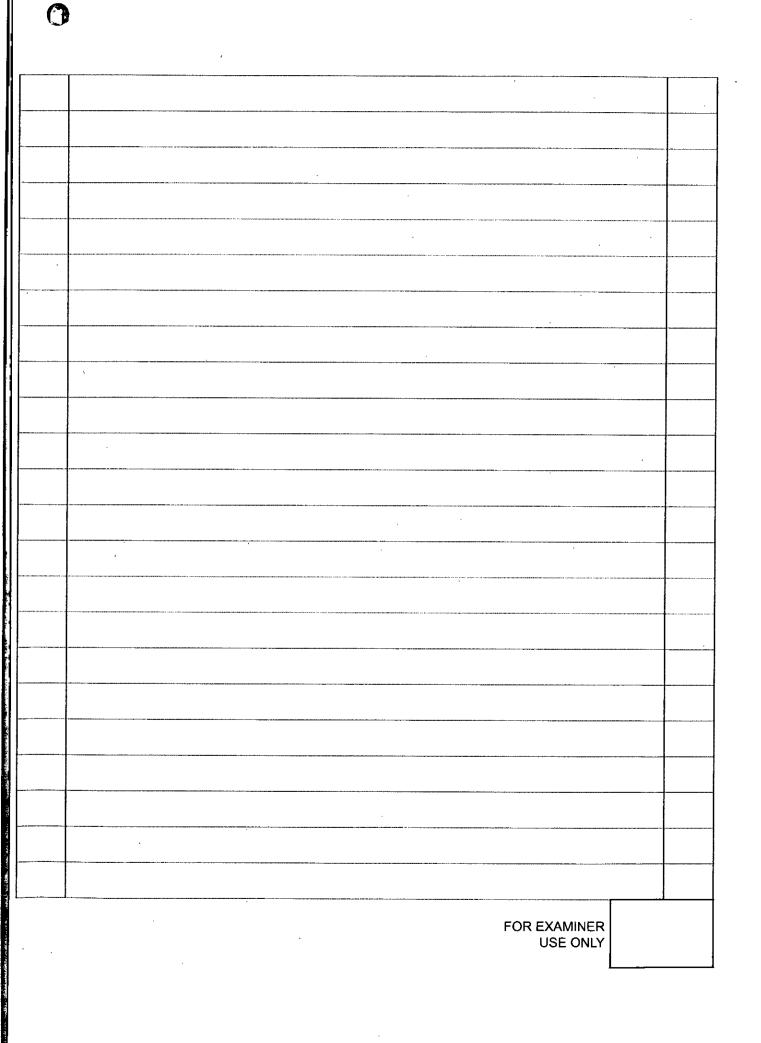


3. Bob and Claire have been married for many years, each operating their own business. Bob supplies exempt products only, whereas Claire supplies both exempt and zero-rated goods.

## You are required to:

- 1) Briefly explain whether Bob and/or Claire can voluntarily register for VAT.
- 2) Give three advantages of voluntary registration.

| ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, |  |  |
|--|--|--|
|  | i) where an person who is not liable to be VAT |  |
|  | registered and is not already registered       |  |
|  | satilies MMRC that he makes taxable supplies!  |  |
|  | or is carrying on a business & intends to make |  |
| ,                                      | such supplies in the course of that business   |  |
|  | ney shall, if he so requests, register him     |  |
|  | with effect from theday on which the request   |  |
|  | is made.                                       |  |
|  | Therefore Claire will be able to identarily    |  |
|  | register for VAT as she makes taxable as       |  |
|  | 7  | ······································ |
|  | Babal inhas a miss le illo                     | *************                          |
| ****                                   | Bob only Makes exempt supplies he will be      |  |
|  | unable to uduntainly register.                 | ***********                            |
|  | 2/(:) 0 1 2 1 2 1                              |  |
|  | 2)(i) ledain input vat an purchases            |  |
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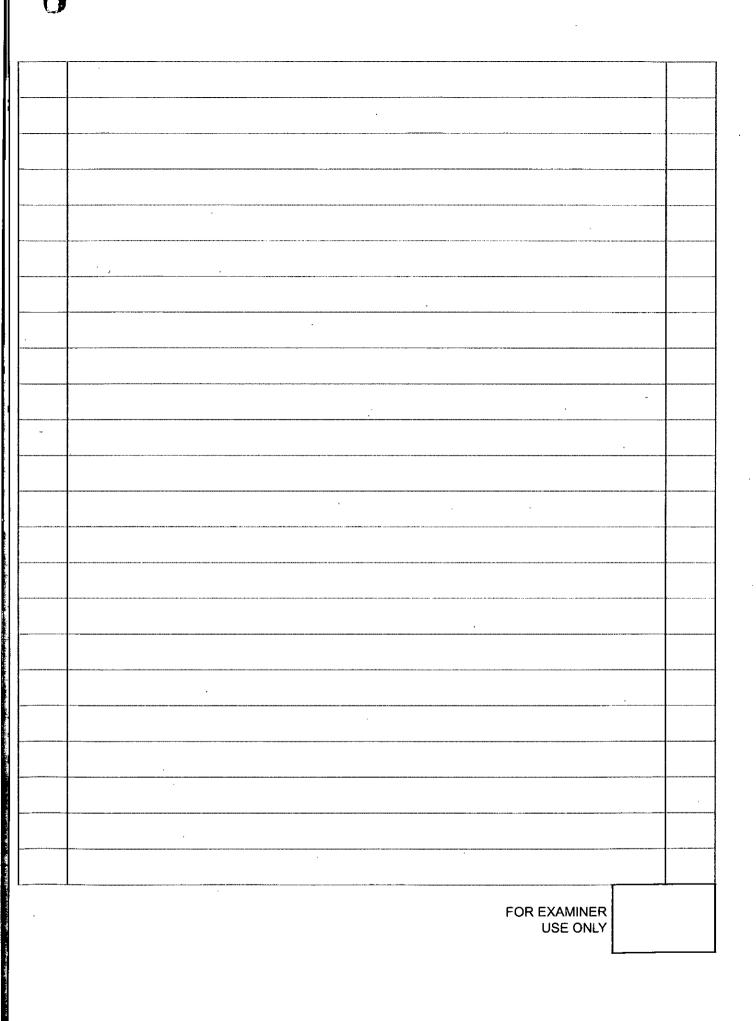


4. Franko Ltd purchased a freehold property in January 2015 for £300,000 plus VAT. As part of the property was sub-let, the company immediately exercised an option to tax. Franko Ltd makes both taxable and exempt supplies.

The directors are considering selling the property before 31 December 2018 for £500,000 but want to understand the VAT position.

Briefly explain the VAT implications of the proposed sale of the property during the year ended 31 December 2018.

| r                          |   |   |
|----------------------------|---|---|
|                            | where an option to tax is in place, asupply | *************************************** |
|                            | of goods or senices which would drawise     |   |
|                            | be exempt become a towarde supply.          |   |
|                            | Therefore, the sale of the building with an |   |
| <u> </u>                   | ,   |   |
|                            | option to tax will be subject to UATO the   | *************                           |
|                            | Standard rate of 20%                        |   |
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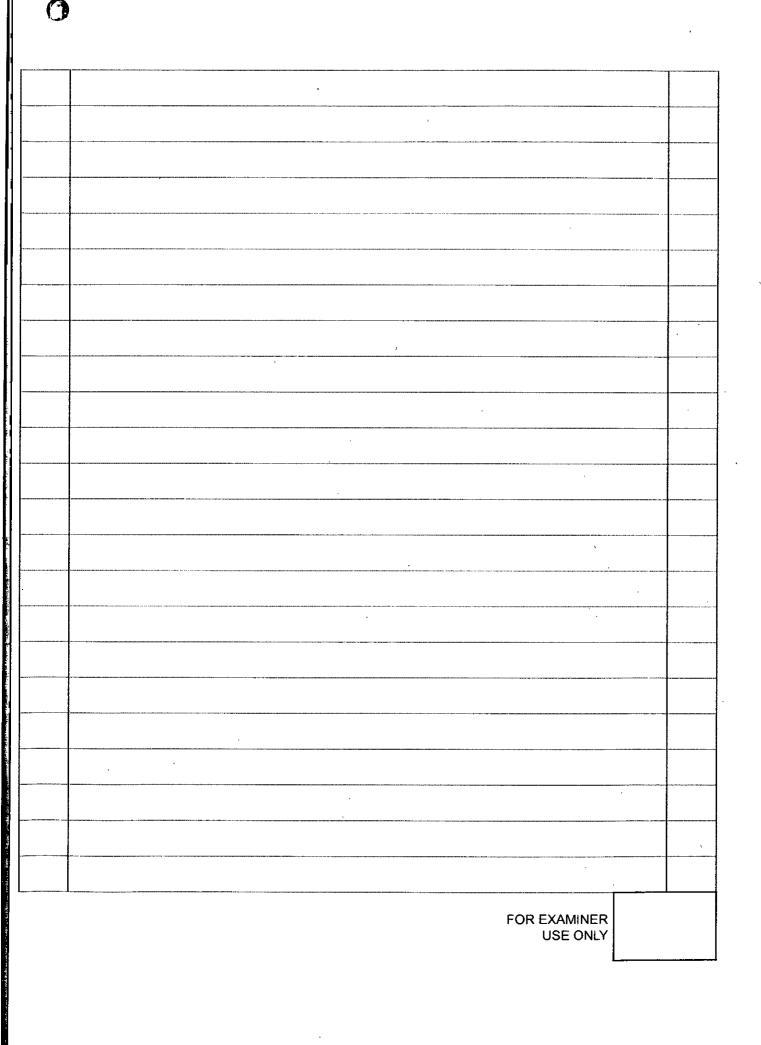


 Steven became VAT registered on 1 November 2017. His first VAT return to 31 January 2018 was completed by a book-keeper who is unavailable to help complete the return for the quarter ended 30 April 2018.

Steven intends to complete the return himself, following the workings for the previous return. He has found that his returns are completed using the flat rate scheme and has seen some notes about limited cost traders, which he does not understand.

Briefly explain how the relevant flat rate percentage is determined and the relevance of being a limited cost trader.

| The flat rate scheme is where HMRC permit                                      |
|--|
| a small business trader to apply a specific                                    |
| percentage to his vat inclusive sales to work                                  |
| at how much evature needs to account   |
| for to HMRC in a relevant period.  |
| The percentage used is based on the  |
| category of his business. They in turn, is based                               |
|  |
| or his rain business activity.  18 au toxable person is a limited cost trader, |
| heir flat vate percentage will be 16.5%  |
|  |
| regardless of their business sector.   |
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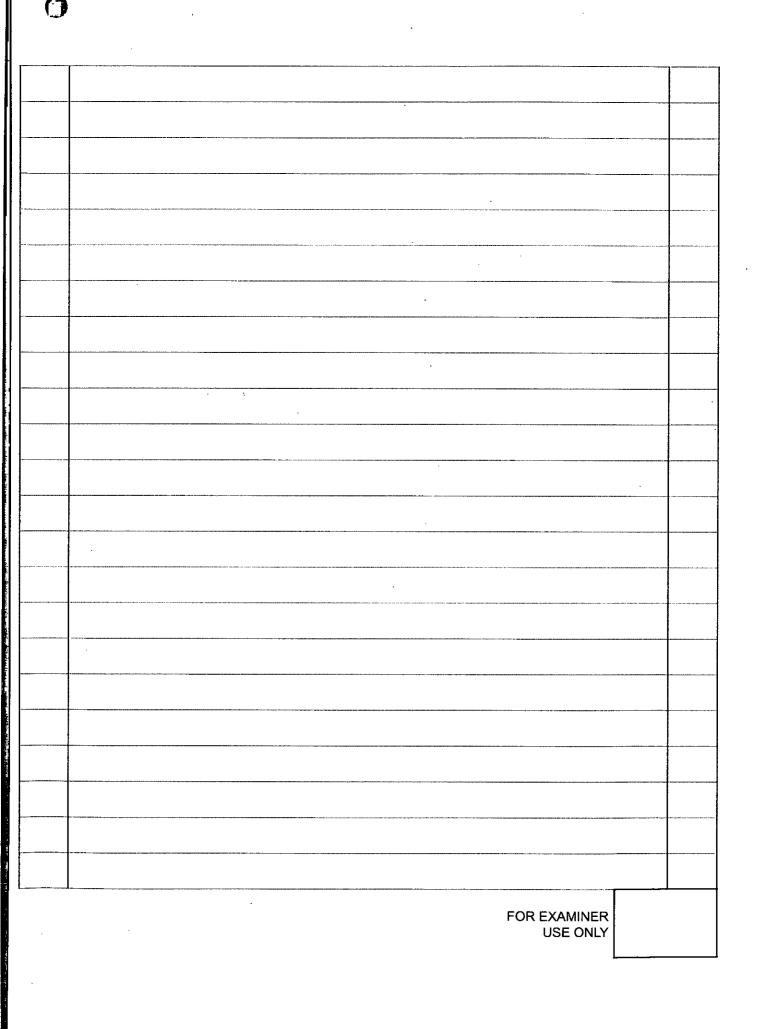
6. Edna has decided to cease trading on 1 August 2018, when the lease on her property ends. She is negotiating with two potential buyers.

The first potential buyer is interested only in the stock and certain fixtures which they will purchase for use in their existing business.

The second potential buyer is interested in purchasing the business as a whole, which they will then continue to run out of their existing property.

Briefly explain the VAT implications of the proposed cessation of trade and sale to each possible buyer.

| P4-2-4           |  |
|------------------|--|
| ALULUS ARKES 144 | Where a business is transferred as a going   |
|                  | concern, as in option two, there are not vat |
|                  | casequences as the transfer                  |
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7. John uses the annual accounting scheme and prepares returns to 31 March each year. For the year to 31 March 2017, VAT of £138,000 was payable. For the year to 31 March 2018, the following information is available:

Output VAT on sales
Input VAT on purchases and expenses

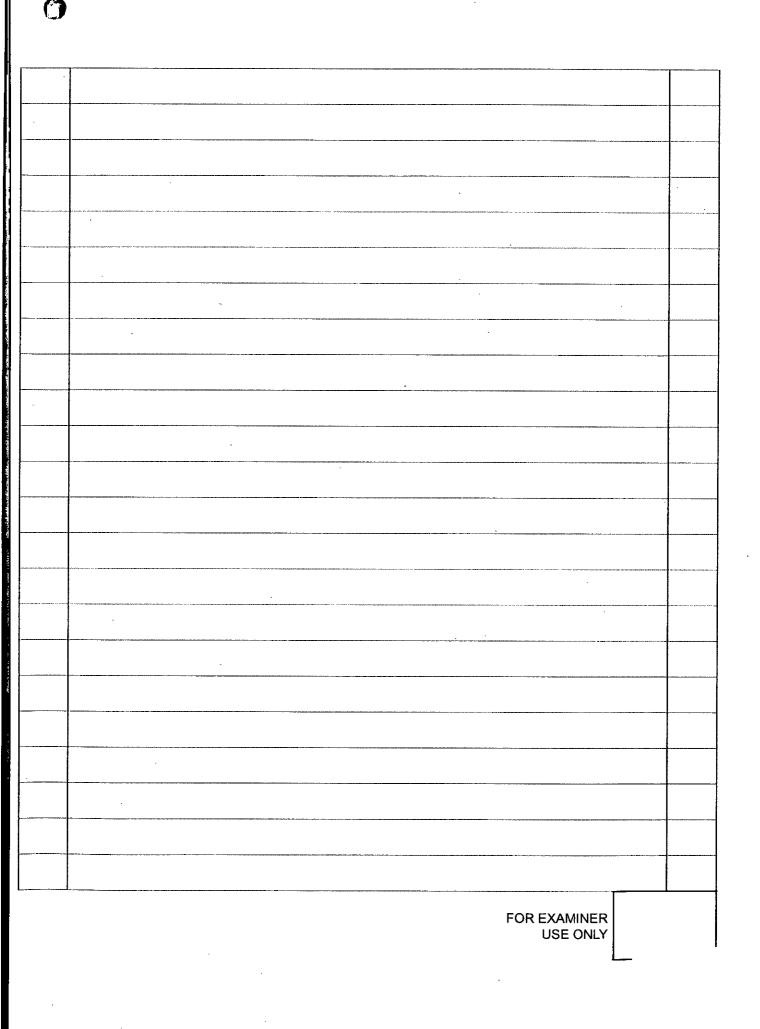
264,000 121,500

The input VAT includes £1,200 on the cost of entertaining customers and £4,100 on the purchase of a car for John. John used the car for business and personal journeys.

Calculate the balancing payment for the year ended 31 March 2018 and state when this will be payable

| Calculate the balancing payment for the year ended 31 march 2010 and state when this will be p | ayabic. |
|--|---------|
| E  |         |
| Output VAT: 264,000  |         |
| less: Input VAT 121,500  |         |
| casa: client entertainment (1,200)   |         |
| (120,300)  |         |
| VAT payable 143,700  |         |
| USS: 90% £ 138,000 (124,200)   |         |
| Balance due Par yle 31.3.18 19,500   |         |
|  | ,       |
| This amount is due for payment by 31 May 2018  |         |
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8. Crabco Ltd offers children's play activities for £15 per child to include the provision of a t-shirt. Crabco Ltd does not sell the t-shirts to anybody not joining them on one of their sessions. Normally, the supply of the play activities would be standard rated and the supply of the children's t-shirts would be zero rated.

Briefly explain the VAT treatment of the supply of the play activity.

|  | A A I I I I I I I I I I I I I I I I I I           |
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| <u></u> 5  | here there is a single supply for services, for   |
|  | ande the praision of the children's play          |
| i  | ctivities which is standard rated and an          |
| l l  | noter element of the supply, i.e. praision of     |
|  | et-suirt (serorated supply) the legislation       |
|  | des not require the supply to be artifically      |
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|  | plit between the two elements but will            |
| l l  | reat the supplings a single supply at the         |
|  | appropriate vat rate for the principle supply ie. |
| į.   | they standard rated UAT will be payable           |
| 4  | on the supply of the play activity as the         |
| and the state of t | praision of the t-suirt is anciliary to the       |
|  | principal service.                                |
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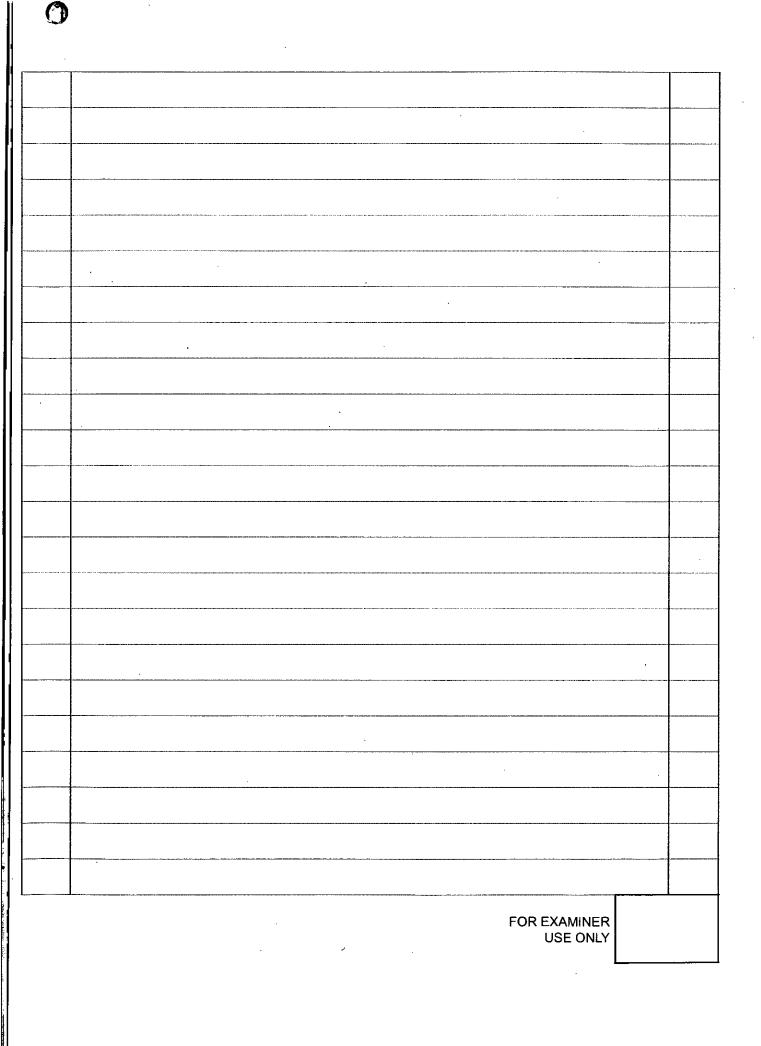
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And the state of t

9. When completing the VAT return for Fredsum Ltd for the quarter ended 30 April 2018, it was discovered that an error had been made on the previous quarter's return. £80,000 of sales (inclusive of VAT) made in January 2018 had been omitted from the return by mistake. Turnover for the quarter was £425,000.

Briefly explain how the error can be corrected.

| The error can be corrected an Fredschild           |   |
|--|---|
| VAT return for the prescribed accounting           | -1177-232- 3771FBBS   |
| period as he underdeclaration does not exceed £50° |   |
| An adjustment will need to be made to              |   |
| the VAT return to account for the underdectord     |   |
| VAT of £13,333(£80,000×16).                        |   |
| This arrant will need to be added to Box I         |   |
| of the relevant VATIOO for for the prescribed      |   |
| accounting period.                                 |   |
|  | ***************************************   |
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10. Julia trades in antiques and memorabilia. As Julia purchases most of her items from members of the public and then sells them at fairs and online, she uses the second-hand goods margin scheme. During the latest quarter ended 31 March 2018 her sale and purchase records show the following:

Item A
Sold for £80
Purchased from Mr Brown for £150
Item B
Sold for £580
Purchased from Mrs White for £300
Item C
Sold for £660

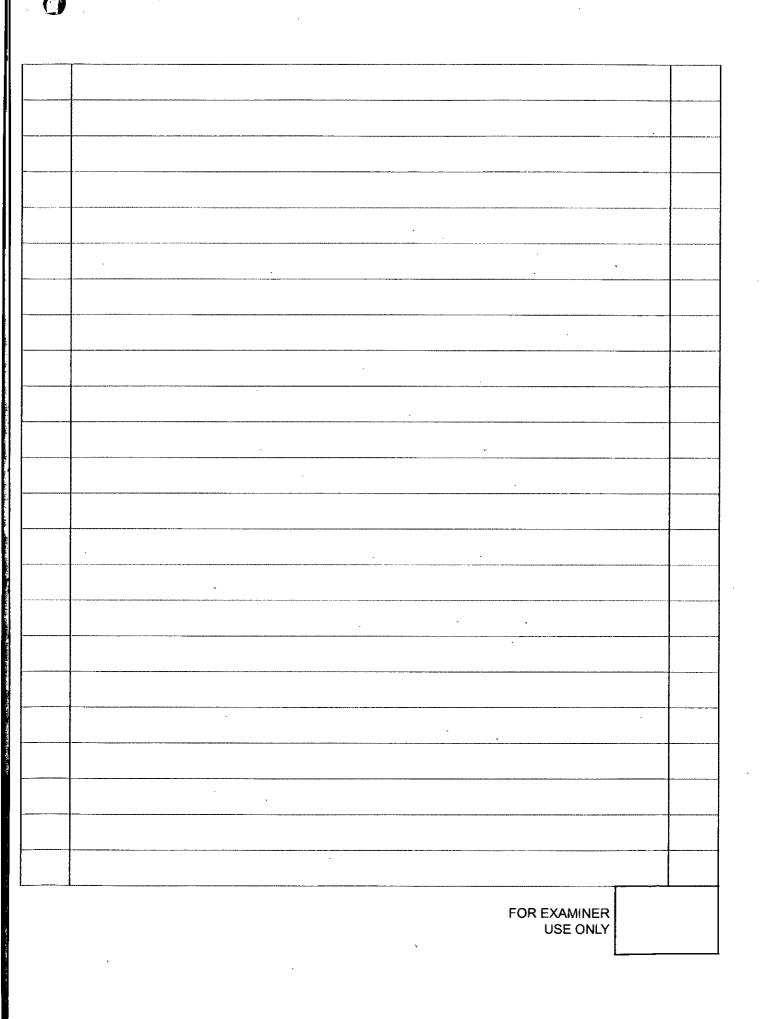
Purchased from a local business for £400 plus VAT

None of the customers required a sales invoice. The only other costs incurred were some restoration costs totalling £100 exclusive of VAT.

Calculate the VAT effect of each of the above transactions.

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## 11. Kate purchased the following properties:

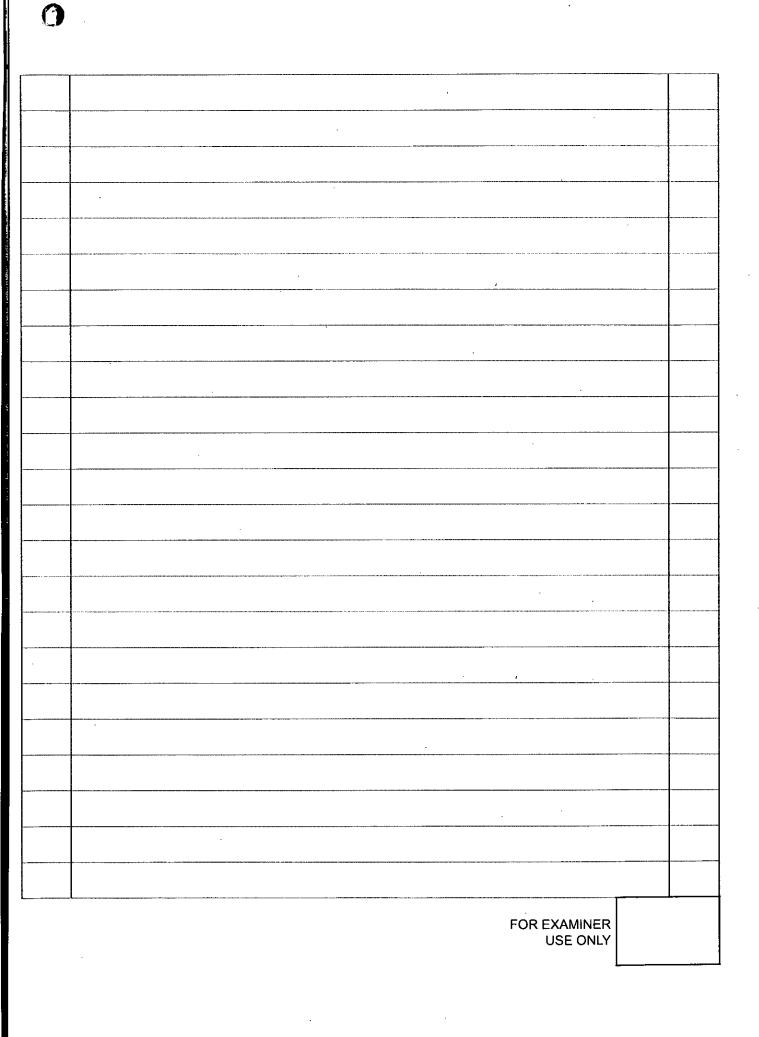
- 1) New freehold commercial premises for use in her business for £300,000.
- 2) A second residential property to let out to tenants for £180,000.

Both prices are quoted exclusive of any applicable VAT.

Calculate the Stamp Duty Land Tax payable, if any, on each of the two properties.

|                              | 97 (1888) II. 20 Al COMPANIA IN ANNANAMININININININININININININININININI |  |
|------------------------------|--|--|
| 1) New freehold connercial   | premises ?   |  |
| ``1 ,                        | E  |  |
| 60-150,000 p 0%              | nil  |  |
| £150k-250ke 2%               | 2,000  |  |
| E250k-300k@ 5%               | 2,500  |  |
| SOLT payable                 | 4,500  |  |
|                              |  |  |
| 2) 2nd residential property: |  |  |
|                              | L  |  |
| 60-125kg 370                 | 3,750  | ed allow a second and a second and a second and a second and a second and a second and a second and a second a |
| £1256-1806 e 5%              | 2,750  |  |
| SDL+ payable                 | 6,500  |  |
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12. Cath and Art agreed to exchange shares on 1 March 2018.

Cath will transfer 10,000 shares in Pier Ltd to Art worth £2.50 each and Art will transfer 8,000 shares in Bay Ltd to Cath worth £2.80 each plus cash of £2,500.

Briefly explain, with supporting calculations, the Stamp Duty payable, if any. Your answer should clearly state who is liable to pay.

| Stamp duty reserve tax @ 0.590 is payable       |   |
|---|---|
| an agreements to transfer shares.               |   |
|   |   |
| SDRT is payable by the transferor on the amount |   |
| or value of the consideration for the sale.     |   |
| Or vesses of the consideration for the sale     |   |
| Cath: 1,000 shares @ £2.50 = £2,500             |   |
| SDRT00.5% = E12.50                              |   |
| Randed up to neavest £5 => £15                  |   |
|   |   |
| Art: 8,000 @ £2.80 plus £2,500 = £24,900        |   |
| SDRTE 0.5% = E124.50                            |   |
| Randod up to nearest ES => E125                 | , |
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