



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

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Suggested solutions

Awareness Module A - VAT and Stamp Taxes

1. Cameron

- 1) Cameron has provided a service in exchange for monetary and non-monetary consideration. 1

The value of the supply is therefore £6,000 in cash and £1000 (£7,000 - £6,000) as the value of the non-monetary consideration ie £7,000. 1

So the total consideration in June 2016 was £7,000 and Cameron should have accounted for output tax at 1/6 of £7,000 ie £1,166.67 1

- 2) As more than six months has passed since the debt was due for payment, Cameron can claim VAT bad debt relief on a VAT inclusive figure of £1,500 (£500 cash plus £1,000 plumbing work) ie VAT of £250 (1/6 of £1,500). 1

To claim the bad debt relief Cameron must have accounted for and paid the output tax on the supply, and the remaining consideration must have been written off as a bad debt in his accounts. 1

Note - the question was also marked as correct if a candidate assumed that £7,000 was a VAT exclusive amount ie Cameron should have accounted for VAT of £1,400 (20% x £7,000) and the bad debt relief of £483 ((£8,400 - £5,500) x 1/6) could be claimed.

2. Hamer Ltd

- 1) Hamer Ltd, Mahon Ltd and Nawaz Ltd are eligible to form a VAT group as:

Hamer Ltd 'controls' these companies, and 1

They all have a fixed establishment in the UK. 1*

***This mark can also be gained by stating that Stephens Ltd must be excluded as it is not established in the UK.**

- 2) The potential advantages of VAT group registration are:

To centralise the VAT affairs of the group – and so help with compliance. 1

Group registration may simplify VAT accounting, as there is only one VAT return to prepare each quarter. 1*

Intra group supplies can be disregarded –thus avoiding potential irrecoverable input tax. 1

The inclusion of Nawaz Ltd (company making exempt supplies) may enable the recovery of input tax that would otherwise be irrecoverable. 1**

***Credit would also be given for alternative simplification examples eg reduced number of VAT visits/ only one partial exemption calculation applying to the whole group.**

**** Note an exempt supplier can also have a negative impact on input tax recovery. The impact depends on the relevant size of the exempt supplier. However disadvantages were not required in this case.**

Maximum 3 marks for part 2

3. **Marshy Ltd**

	<u>VAT</u> <u>recoverable</u> £	
<u>Meal with a potential UK client</u>		
Not recoverable as relates to entertaining of UK client.		1
Staff are merely acting as hosts so VAT on entertaining of staff not recoverable.	0	1
<u>Team building event</u>		
VAT on team building events for staff are recoverable but not where this relates wholly to directors.	0	1
<u>Annual dinner for staff</u>		
VAT on the element relating to staff is recoverable (including directors). £7,200 x 100/180 x 1/6	667	1*
VAT on the element relating to the guests of the staff is not recoverable.	0	1**
	—	
	<u>667</u>	

***This mark is for the explanation plus a calculation using 1/6 and recovering the VAT on the element relating to the directors.**

****This mark is for specifically excluding the guests**

4. **Mariella**

Option to tax

If Mariella does opt to tax the property any supplies of the property are standard rated.

She will be able to recover the input tax of £40,000 on the renovation costs, leaving a cost to her of £200,000. 1

The tenants will be charged rent of £35,000 plus VAT of £7,000, but the firm of solicitors (making taxable supplies) will be able to recover the VAT. 1

If the tenants are the bank, making exempt supplies, then they will not be able to recover the VAT and will suffer a total cost of £42,000. 1

No option to tax

If Mariella does not opt to tax the property any supplies of the property are exempt.

She will not be able to recover the input tax of £40,000 (£200,000 x 20%) on the renovation costs. 1

The tenants will be charged rent of £35,000 pa with no VAT. 1

Mariella may wish to increase the rent above £35,000 to compensate for the irrecoverable input tax. 1

Maximum 5 marks

5. Braithwaite Ltd

1)

Quarter to

30 November 2016	As this is the first default in a surcharge period a charge of <u>2% of the VAT paid late</u> applies.	1
	However as the surcharge is less than £400 it will not be charged. (£7,000 x 2% = £140)	1
28 February 2017	As this is the second default in a surcharge period a rate of 5% applies, but as the company is in a <u>repayment position no charge applies.</u>	1

2)

The default in the quarter to 28 February 2017 extends the surcharge period to 28 February 2018. (Note: 7.4.18 accepted as the legislation says it runs 12 months from the due date of the return) 1

The rate applying to the next default in the surcharge period will be 5% (as this was not used in the quarter of the repayment). 1

6. Raza Ltd

1) In-year adjustment – year ended 31 March 2017
As the property was used 100% for taxable purposes no adjustment is required. 1

Sale adjustment

Raza Ltd owned the property in the VAT years ending 31 March 2012 to 31 March 2017 so there are four remaining years for capital goods scheme purposes.

Adjustment on sale = $4/10 \times (\pounds 400,000 \times 20\%)$

= £32,000 payable to HMRC 3*

2) If the use in the year ended 31 March 2017 had been only 95% there would have been an in-year adjustment of

$1/10 \times \pounds 80,000 \times 5\% = \pounds 400$ payable to HMRC 1**

The sale adjustment would be unchanged. 1

***1 mark for calculating the VAT at 20%; 1 mark for the correct prorating (ie 4/10 not 5/10); 1 mark for payable to HMRC.**

****Calculation only ('payable to HMRC' not required).**

Maximum 5 marks

7. **Matthew**

- 1) This is not a valid retailer invoice as:
- The VAT inclusive value of the invoice exceeds £250 ($£220 + £44 = £264$). 1
 - It does not include the rate of VAT applying. 1
- 2) The additional information required is:
- The name and address of the customer 1
 - The total amount charged net of VAT 1
 - The total amount of VAT charged 1

Note - credit will also be given for any other valid point in part 2) eg rate of any discount offered, reference to the margin scheme (if applicable) to a maximum of 3 marks.

8. **Wood Ltd**

1) Legal services

This is a business to business (B2B) supply to a UK business from an overseas business, so the place of supply is in the UK and a reverse charge will apply. 1

This will require Wood Ltd to put an output VAT charge on the VAT return. 1

The company will then recover the VAT in the input tax section of the return. 1

2) Distance learning course

The normal place of supply of a B2B supply is the place of the customer ie UK. 1*

In the case of distance learning they are treated as supplied where there is effective use and enjoyment ie New York, so there are no UK VAT implications (*VATA 1994 Sch 4A Para 9*). 1*

Note - Alternatively, a candidate could state that s.9 VATA 94 applies and that the place most concerned with the supply (the 'relevant establishment') is the USA, so it would be outside the scope.

***If a candidate just states the normal place of supply they can gain 1 out of 2 marks for the distance learning. If the candidate knows the special rule then they get both marks even if they do not state the normal rule.**

9. **Phoebe**

1)

Supply of electricity

The supply of electricity to Phoebe's home is at the reduced rate of 5% ie VAT of £10 (£210 x 5/105). However the VAT is not recoverable as the supply is not in the course of her trade **2***

The supply of electricity to the shop is likely to be substantial given the nature of the business, and so it is a standard rated supply ie VAT of £75 is recoverable (£450 x 1/6). **1**

Staff uniforms

Clothing is standard-rated except in certain specific circumstances. If this is protective clothing in line with British Standards then it will be zero-rated. However it is likely to be standard-rated and VAT of £40 (£240 x 1/6) will be recoverable. **2**

**Credit will also be given if the candidate states that part may be recoverable if she uses part of her home as an office.*

2)

Non-compulsory tips and gratuities given to staff are outside the scope of VAT. **1**

Maximum 5 marks

10. **Oliver**

1)

Antique brooch

Output tax $(£20,000 - £5,000) \times 1/6 =$ £2,500 **1**

Input tax $£1,500 \times 20\% =$ £300 **1**

Painting

As the painting is sold at a loss there is no output tax. **1**

2)

Differences between the schemes

Under the global accounting scheme, the selling prices and costs of all items are pooled. This means that losses and profits are automatically offset, so reducing the amount of output tax payable. **1**

Also, all purchases in the period are included in the calculation even if the goods are not sold, so giving early relief for costs incurred. **1**

Credit given for any other valid difference (eg cars and items costing over £500 excluded from The Global Accounting Scheme).

11. Rooble Ltd

1)

There is no exemption from Stamp Duty for the share transfer as Rooble Ltd does not own at least 75% of the shares in Robindo Ltd. 1

2)

A penalty may be payable as the instrument will be stamped more than 30 days late. 1

If stamped within one year of the end of the 30-day period the maximum penalty is

the lower of 1*

£300; and 1

The Stamp Duty payable ($£250,000 \times 0.5\%$) = £1,250 1

***This mark requires mention of 1 year and the 'lower of'**

Note - HMRC do not always charge the maximum penalty.

12. Jamarcus Ltd

1)

Finance Act 2003 s.57A provides relief from Stamp Duty Land Tax (SDLT). The lease back element of the transaction is exempt from SDLT. 1

Note – the statutory reference is not necessary to gain the mark

2)

Jamarcus Ltd has two elements of SDLT on the factory:

<u>On the lease premium</u>	£	
£150,000 x 0%	Nil	
£100,000 x 2%	2,000	
£50,000 x 5%	<u>2,500</u>	
	<u>4,500</u>	2

On the lease rentals

The NPV of the lease rentals is £213,551 ($£10,000 \times 21.35507234$) 1

So the SDLT on the lease rentals is $(£213,551 - £150,000) \times 1\% = £636$ 1