



The Chartered Tax Adviser Examination

Sample Paper

Application and Professional Skills

VAT and Other Indirect Taxes

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, 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.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

You are Nadia Ishtaq, a Tax Consultant in a firm of Chartered Tax Advisers. You have recently received a letter (**EXHIBIT A**) from Alex Wilko, the Managing Director of your client, SuperStationery Ltd. SuperStationery Ltd is a company that sells office supplies to retailers in the UK.

Currently, they are only selling whiteboards and laminators, but Alex would like to expand the product range by selling cash boxes. He has received two proposals from suppliers and he would like your advice on which would be the best.

Currently, the business is run from Alex's house with stock stored in his garage. However, with the growth of the business, he would like premises to store the purchased products prior to sale and would therefore also like your advice on the best way to structure his plans, from a tax perspective.

Alex has also been thinking about selling laminators direct to individuals in the EU but is not sure whether this is a line of business worth pursuing and again would like your advice.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Alex Wilko

EXHIBIT B: Projected costs of purchasing from Fountain Ltd and Xhiago LLC

EXHIBIT C: Letter from Landlord

EXHIBIT D: Pre-seen information

Requirement:

Write a letter to Alex Wilko advising on the purchase of the cash boxes, the new premises and the online sales.

EXHIBIT A

Letter from Alex Wilko

Nadia Ishtaq
Bellaps Chartered Tax Advisers
12 Belton Road
Oldborough
OB5 3NP

Alex Wilko
SuperStationery Ltd
22 Low Hill
Oldborough
OB8 3RQ

1 November 2018

Dear Nadia

Purchase of stationery/office supply products

Further to our telephone conversation last week, I would like you to advise me about which option I should pursue for the purchase of the cash boxes and the best way to structure my plans with regard to the move to new premises.

Options for purchase of cash boxes

As you know SuperStationery Ltd already sells laminators and white boards and has concluded contracts with UK large retailers for the next two years. We are looking to expand our range of products and we have agreed with Nesco plc (a large UK and online retailer) that we can be its sole provider of cash boxes for the next five years. In the first year, Nesco plc will buy 200,000 cash boxes from us.

We attended a trade show two months ago and met a representative from Fountain Ltd, a UK based company, who told us that they could supply the cash boxes wholesale to us. Fountain Ltd provided us with two options:

- 1) Fountain Ltd will supply the cash boxes to us, in the UK.
- 2) Fountain Ltd will introduce us to its sister company, Xhiago LLC, in Bangladesh and we can import the cash boxes direct from that company.

I am enclosing a note from Fountain Ltd setting out the two options in more detail (**EXHIBIT B**) and would appreciate your advice as to which option would be best for us.

For the second option I have found a shipping company that will charge us £1,500 per consignment for the freight and insurance to our premises of which £500 relates to freight from Tilbury to our warehouse. I will also need to visit Xhiago LLC and anticipate that travel, hotel and subsistence costs would be around £3,500. The special deal for the cash boxes of £60,000 is only available to us if we purchase the cash boxes via Fountain Ltd. If we were not to go via Fountain Ltd then we would have to pay Xhiago LLC's normal list price of £80,000. Xhiago LLC imports the cash boxes, in bulk, into their factory in Bangladesh from China without the lid being affixed. Employees working in the factory remove each box, simply click the lid into place and then put each individual cash box into a single bubble wrap sleeve to stop the metal getting scratched in transit, before shipping out to customers.

I've been told by Xhiago LLC that cash boxes are classified in Heading 8304 and incur a full duty rate of 2.7% and a preferential rate of 0%. China is excluded from preference but Bangladesh benefits.

New premises

As mentioned on the telephone, the business has outgrown the current premises (my garage) for the storage of stock and we would therefore like external premises. We have found suitable premises, although they are a little bigger than we need right now. The landlord has confirmed that we can sublet part of the premises, which should make it more affordable for us (**EXHIBIT C**). I have found someone willing to rent part of the property: it is a small non-VAT registered sole trader business selling car parts. I think we could charge him rent of around £8,000 per annum.

I think the owner is keen to get somebody in as the premises have been empty for a while now and has suggested that we can sub-let to another party, for the surplus space. We have received a letter from the landlord with his suggestions for terms. The owner has suggested a lower premium and higher annual rent to what properties normally go for, in this area. We will also store the laminators and white boards in the new warehouse.

I'm hoping that once our business grows we can then utilise all the space again ourselves. This will hopefully coincide with the landlord having refurbished the other warehouse for the other tenant to move back into. I've been told, by my solicitor, that the net present value of the lease that we would take out is £440,000 but I'm not sure what that means.

Ideally, the place needs re-fitting. However, if we don't get the second grant straight away (see below) then we could move in as it is and would just need to do the work as and when we raise enough spare capital. We have had a quote from a builder who will do everything for us (this is all VAT exclusive):

	£
Re-wiring and re-plastering	10,000
New shelving	7,000
Installation of new shelving	3,000
New fire door and fire alarm system	3,000

Other Capital Purchases

With the increased stock we will be holding, we are considering acquiring a forklift truck to move boxes around. If we buy it outright, it would cost £20,000 plus VAT. We would expect to have to replace it after about four years at which point it would be worth around £10,000. We could lease one for £150 plus VAT per month with the lessor responsible for all repairs and we would be able to return it at any point with one months' notice. If we leased then I could at least pay back some of the loan to Samuel (see below).

The company has leased a car for me at a cost of £280 per month (including VAT), since 1 July 2018. I did it via the company as the cost to lease it personally would have been £350 per month (including VAT). My business mileage is around 65% of the total mileage. I've had my coding notice from HM Revenue & Customs with the car benefit included and am a bit shocked as it looks like I have a lot of tax to pay. Would I be better off with a personal lease? The list price of the car is £27,000 and it has CO₂ emissions of 227g/km.

As you know, I haven't completed my first VAT return, so VAT recovery is also important to me but overall reduction in costs is obviously what I am ultimately after!

Funding

To provide initial funding when the company was set up, we borrowed £50,000 from Uncle Samuel. Most of this was used on buying stock, uniforms for staff and a van and so we applied for a grant of £100,000 from Advantage West Midlands of £100,000 to fund the purchase of cash boxes and help us to develop that part of the business. The grant is non-refundable, but can only be used for the cash box part of the business.

Uncle Samuel also has lent the company £50,000. We used some of this money to reimburse me personally for the legal costs of setting up the company and associated legal advice of £350 (both inclusive of VAT) and we bought a used van, which cost £5,500 (inclusive of VAT). We also bought uniforms with our logo on for me and Josephine to wear when attending trade events for £1,000 (inclusive of VAT).

We have applied for a further grant in order to secure our new warehouse (see below) as there is a possibility we could get another £100,000. We should hear within the next few weeks. If we are successful then we can use it to rent the premises, fit the premises out for the storage of the cashboxes and as long as the funds are used for the company's approved objects (I'm not sure what this means exactly) then we satisfy the terms of the grant. Josephine will be happy as it will get the current stock out of our garage!

Online sales

Josephine has been looking into the possibility of us selling our products direct to consumers via an online platform. We would limit sales initially to the UK and the EU. We would need to wrap the products individually and would have a flat rate charge to cover packaging and posting, which would depend on the country of destination. If there are any faulty products, we would ask the customer to return them to us and we would then send a replacement. As we haven't previously made any non-UK sales, is there anything we need to be aware of?

Thanks so much for your help.

Alex

EXHIBIT B

Projected costs of purchasing from Fountain Ltd and Xhiago LLC

Email:

To: Alex Wilko
From: Jay Harper, Fountain Ltd
Date: 19 October 2018
Subject: Terms for purchase of cash boxes

Hi Alex

Further to our discussions, please find below the draft terms of sale for purchasing the cash boxes, either direct from us or direct from Xhiago LLC.

Purchasing direct from us in the UK

One consignment of 200,000 cash boxes to be purchased for £113,000. The sum comprises the following (all VAT exclusive):

- 1) Cash boxes £100,000.
- 2) Annual fixed charge £10,000 (see below).
- 3) Re-charge of the buying commission for our agent who is sent to Bangladesh to source products and conclude contracts £3,000.

You can take advantage of a prompt payment discount of 5% of the price of the cash boxes themselves, if you pay within seven days.

As discussed, the annual fixed charge is a charge made to customers irrespective of the level of purchases. It covers:

- 1) The set up and maintenance of your account;
- 2) Inclusion of your details as a reseller in our brochure and on our website;
- 3) Marketing materials for you to customise; and
- 4) Telephone support including passing on your details to potential customers.

Purchasing from Xhiago LLC

One consignment of 200,000 cash boxes will cost £73,000 ex-works.

Xhiago LLC usually issues an invoice direct to its customers that isn't broken down into individual components but as discussed the £73,000 total is made up of the following: a special deal on the purchase of the cash boxes of £60,000, the £10,000 annual fixed charge which Xhiago LLC will pass back to us (in this case it also includes an element of commission for us introducing you to Xhiago LLC) and the re-charge of the £3,000 buying commission.

You will have 30 days from delivery to settle any invoice raised by Xhiago LLC.

Let me know what you think and if you need to chat further then call me on my mobile.

Cheers
Jay

EXHIBIT C

Letter from Landlord

Alex Wilko
SuperStationery Ltd
22 Low Hill
Oldborough
OB8 3RQ

Paul Burns
22 Norton Road
Oldborough
OB2 3RJ

21 October 2018

Dear Alex

Rental of warehouse

Further to our telephone conversation, I can offer you to a 10 year lease on the warehouse for a premium of £40,000 and with an annual rent of £55,000 (both plus VAT).

You mentioned that you would like to sublet around a quarter of the warehouse for a short period until your business has grown to require the entire space.

I would be agreeable for this to happen.

Let me know if you wish to proceed and I will get formal contracts drawn up.

Yours sincerely

Paul

EXHIBIT D

Pre-seen information

<u>Client name</u>	SuperStationery Ltd
<u>Client background</u>	<p>The company was incorporated in England & Wales on 1 June 2018 and the first accounts will be made up for the period to 30 September 2019. Subsequent accounts will be made up to 30 September each year.</p> <p>The shareholders are Alex Wilko, Josephine Wilko (Alex's wife) and Samuel Wilko (Alex's Uncle) who each own 1 ordinary share of £1 each.</p> <p>All three shareholders are directors and they have received no dividends or remuneration from the company:</p> <p>Alex Wilko is the Managing Director, running the business day-to-day.</p> <p>Josephine Wilko carries out administrative duties, for example, bookkeeping, answering the phone and raising invoices.</p> <p>Samuel Wilko takes no part in the day-to-day running of the company.</p>
<u>Business</u>	<p>The company started to trade on 1 September 2018.</p> <p>It has concluded several two year contracts to supply white boards and laminators.</p> <p>The gross profit margin is around 20%.</p>
<u>VAT</u>	<p>SuperStationery Ltd became VAT registered on 1 September 2018.</p> <p>Registration number GB122334456.</p> <p>First VAT return not yet filed for the period 1 September 2018 to 30 November 2018.</p> <p>Has not opted for cash accounting, annual accounting or Flat Rate Scheme.</p>
<u>Other information</u>	<p>Samuel Wilko is an additional rate taxpayer.</p> <p>Alex and Josephine Wilko resigned from their jobs as stationery sales reps to set up SuperStationery Ltd. They were both higher rate taxpayers in their previous jobs (Alex earned £65,000 a year and Josephine earned £55,000) and are currently living off their savings of £30,000 whilst building up the business. They anticipate withdrawing profits of £30,000 each for the first year.</p> <p>£50,000 loan received from Samuel Wilko in August 2018 (currently loaned to the company at a flat rate of 5% per annum, payable monthly). There are no specific terms agreed for repayment. SuperStationery Ltd will repay the loan as it has sufficient funds to do so.</p>