

# THE CHARTERED INSTITUTE OF TAXATION

## ADVANCED TECHNICAL

### Domestic Indirect Taxation

**November 2022**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- 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 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Animal Valley Ltd is a not-for-profit company limited by guarantee, with some of its work funded by grants and donations. It operates a sanctuary for small species including lemurs, otters, meerkats, birds and wildcats, and is open daily for admission by the general public. Its constitution provides that it will be non-profit making with any surpluses being re-invested into the activities. Management is undertaken by a small board of volunteers who have no financial interest in the sanctuary.

A new experience being offered has proven to be very popular with visitors, involving close interaction and feeding the meerkats and lemurs. The income from these experiences, along with the admission income, helps towards funding the sanctuary's growth.

A small part of the sanctuary housing five African wildcats is currently closed to visitors. The animals were imported from Africa and are being quarantined whilst further research is undertaken on the species, and their breeding habits. This work is being funded by a conservation grant. It is hoped that the enclosure housing the African wildcats will be open to visitors in 2023 or 2024.

In order to develop the sanctuary's site and ability to house more animals, it needs to increase its revenue. To do so, it has obtained bank finance to:

- 1) Increase its car park from 25 to 60 spaces (£80,000),
- 2) Add a small café and gift shop and extend the existing toilet block, (£200,000), and
- 3) Improve the African wildcat enclosure, which is currently closed to the public (£50,000). This area requires significant landscaping work but represents a small proportion (around 10%) of the sanctuary's total site.

All amounts are VAT exclusive. The works will start in January 2023 and will take approximately two months to complete.

Income for the year ended 31 May 2022, and forecast income for the following two years is:

<u>Income Stream</u>	<u>31 May 22</u>	<u>31 May 23</u>	<u>31 May 24</u>
	£	£	£
Donations	45,000	50,000	55,000
Entry Fees	225,000	300,000	560,000
Conservation Grant	0	100,000	0
Animal Experiences	40,000	60,000	85,000
Café & Gift Shop	N/A	50,000	360,000
Car parking	18,700	29,500	46,750
Total	£328,700	£992,500	£1,081,750

The sanctuary is not yet registered for VAT, but has been considering whether, in light of the above plans, it should be. The sanctuary wants to understand what registering will mean for it on an on-going basis, and the extent to which it might recover VAT on the building work and running costs.

**Requirement:**

**Discuss, with reference to relevant case law, the consequences of VAT registration for Animal Valley Ltd and make appropriate recommendations to maximise the recovery of input tax.** (15)

2. Ffion is a qualified Physiotherapist. She is currently working for the NHS but wants to become self-employed in February 2023 using some money she inherited on the death of her aunt.

Her intention is to provide 'whole mind and body experience' sessions, which would include physiotherapy, nutritional advice and mindfulness. Initially she will provide these to private individuals from her home. She will purchase a wooden cabin and pay for a firm to erect it at the bottom of her garden. Where a client cannot travel to see Ffion, she will provide her service in a client's own home. She is looking at a combi-van vehicle which has rear seats that fold down so it is large enough for her to fit her physio table in.

Ffion is unsure how to structure her pricing. She is thinking of charging a flat rate fee of £65 an hour for her services, and any products that the clients wish to purchase would be invoiced separately. The client would pay £50 for an introductory session, at which it would be decided what they wanted out of each subsequent session, and how many sessions they would require.

A typical session is likely to include:

45 minutes of physiotherapy  
10 minutes of relaxation techniques  
5 minutes nutritional advice

Ffion will have a range of products to sell. Edible face creams are currently a trend with celebrities. They are predominantly made from a flavoured natural set yogurt, with real fruit pieces in them. They retail at £20 a tub. Ffion is thinking of some introductory offers for her products. She can sell a case of 50 lavender spray mists for £300 (£6 each), instead of individually for £8 each. She will also do a '£30 deal' whereby a client can purchase a face cream, a mindfulness CD (sold individually for £10), and a spray mist will be included "for free".

Ffion's friend Elsa is the CEO of a large finance company, F12X Ltd, and is interested in paying her to lead well-being sessions for its staff. F12X Ltd has offices in 16 UK cities and Ffion would be paid £2,000 a day to provide advice on how a person can look after their own physical and emotional well-being. Ffion would look at marketing this service to other companies.

Ffion has written a business plan and estimates that her income from private individuals could be £60,000 a year for services and £10,000 for products sold with a further £58,000 from the corporate work. Ffion does not want to register for VAT as she wants to remain as competitive as possible with the supplies to private individuals. She wishes to ascertain whether she can structure her business in such a way that she will not be required to register.

**Requirement:**

**Discuss the VAT implications of Ffion's proposed business venture.**

**(20)**

3. Albert and Josef are brothers and each own 50% of Propz Ltd. Propz Ltd owns a portfolio of residential and commercial properties that are rented out to individuals and businesses. It has 20 staff. Both brothers and the company are UK resident.

Albert and Josef want to expand Propz Ltd's portfolio and have identified a property, Leewood House, to buy at a cost of £510,000. Alternatively, Albert is looking for a new home and this property may potentially be suitable for him. It is a four bedroomed dwelling, fully furnished with carpets, curtains and other free-standing furniture. The market value of the carpets, curtains and free-standing furniture included with the house is £20,000.

The house contains a "granny annexe", has a 1,500 square feet barn in the grounds (part of which has been converted into an office) and is surrounded by two acres of land. Leewood House has been marketed by the estate agents as 'a fantastic home with a business opportunity for the right buyer!'

The land is currently let to a local farmer to graze his sheep. The farmer pays rent of £2 a week per sheep and there are around 15 sheep grazing most of the year. The income is used to cover the cost of repairs to fencing. Andi Hunter, the current owner of Leewood House, collects the sheep manure and sells it to local allotment owners for £1 a bag.

Three months before Leewood House was put on the market, Andi built the granny annexe in the rear of the property. The annexe does not have its own entrance but does have a locked door leading off the hallway to the main house. It is estimated that around 20% of the purchase price is attributable to the annexe.

Andi has been using the converted part of the barn as an office and has been running a consultancy business from there for the last 12 months. Clients occasionally visit the office in the barn.

There are two options in respect of the acquisition:

- 1) Propz Ltd buys it. In this scenario, Propz Ltd would take possession of the property following completion of the contract with Andi, and either:
  - (a) Let the whole house and granny annexe to a third party as part of its property rental business, or
  - (b) Run the main house as a bed and breakfast. Each room has its own ensuite and the main house could easily be used as a bed and breakfast. Albert's and Josef's sister (Agatha), who works for the company, would manage it for Propz Ltd, and would live rent free in the granny annexe.

In either case, Propz Ltd would convert the unconverted part of the barn and then use the whole barn for staff training.

- 2) Albert buys it personally. Albert recently divorced and transferred his old house to his former spouse as part of the divorce settlement. Following discussions with Andi, Albert could move in at exchange of contracts. Andi would require a deposit of £75,000 on exchange, with the balance being held by Albert's solicitor, to be paid on completion 28 days later.

Albert and Josef are unsure of the Stamp Duty Land Tax implications of the above options.

**Requirement:**

**Explain the Stamp Duty Land Tax liability arising under each option for the purchase of Leewood House.**

(15)

4. Rewards123 Ltd designs and administers employee incentive schemes for employers, all of which are based in the UK. It charges fees to the employer for operating a scheme, based on the number of employees who are members. It began trading on 1 January 2019.

The employer buys 'Points' from Rewards123 Ltd for their face value, (i.e. the employer pays £1,000 to acquire 1,000 £1 Points from Rewards123 Ltd). Rewards123 Ltd charges VAT on its fees but does not charge VAT on the supply of Points. Points are issued and stored in electronic form only.

The employer instructs Rewards123 Ltd to allot Points to named employees. Rewards123 Ltd then opens an account for each employee to whom Points are allocated.

The employees can redeem their Points in one of three ways:

- 1) Cash in the Points with Rewards123 Ltd for their face value.
- 2) Exchange Points for high street vouchers at 120% of their face value.
- 3) Exchange Points for goods and services listed in a Catalogue issued by Rewards123 Ltd at 120% of their face value against the VAT-exclusive Catalogue price ('Catalogue goods and services').

Rewards123 Ltd acquires the Catalogue goods and services from suppliers. It is charged output tax by the suppliers which Rewards123 Ltd recovers as input tax through its VAT returns.

The VAT return dates are 30 April, 31 July, 31 October and 31 January. Following a VAT inspection in September 2021 HMRC issued, on 1 May 2022, two VAT assessments to Rewards123 Ltd for all its return periods from 04/19 to 04/22. These assessments comprised:

- 1) A preferred assessment for under-declared output tax on the sale of Points to employers, on the basis that it constitutes a standard-rated supply of a service to the employers.
- 2) An alternative assessment for over-recovered input tax on the acquisition of Catalogue goods and services, on the basis that there is no taxable supply to which the input tax can be attributed.

**Requirement:**

**Explain the VAT issues which arise from the Points scheme, setting out how Rewards123 Ltd should proceed in respect of the preferred and alternative assessments. (20)**

5. Aachen Bank Ltd is a UK bank, making supplies both to UK business customers and to business customers established outside the UK. Its accounting reference date and VAT year end is 31 March.

Since 1 April 2021 70% of its business (measured by turnover) is with UK-based customers and the other 30% is with non-UK customers, who are largely established in EU states.

Aachen Bank Ltd has been allowed to use a single pro-rata partial exemption calculation using the standard method. In the accounting period to 31 March 2022 residual input tax was £30 million.

With effect from 1 April 2023 HMRC require an alternative method to be adopted on a sectorised basis.

Aachen Bank Ltd has four profit centres. For the year to 31 March 2023 turnover, staff engaged, floor space used and the percentage of supplies which are taxable are expected to be as follows:

<u>Profit centre</u>	<u>Supplies</u>	<u>Turnover (ex-VAT) (£millions)</u>	<u>Staff engaged</u>	<u>Floor space (%)</u>	<u>Taxable/ Foreign/ specified supplies (%)</u>
Securities trading	Dealing	90	20	15	20
Corporate Finance	Advisory	20	10	30	100
Lending	Making and servicing loans	150	40	35	10
Foreign Exchange	Dealing	<u>90</u>	<u>30</u>	<u>20</u>	<u>50</u>
Totals		<u>£350</u>	<u>100</u>	<u>100</u>	<u>100</u>

**Requirement:**

**Discuss the VAT liability of the supplies made by Aachen Bank Ltd and the related input tax recovery position with reference the various partial exemption methods available to it. (10)**

**Using the information available calculate the most appropriate method to be applied from 1 April 2023. (5)**

Total (15)

6. Kitchen Oils Ltd is a UK based company which has developed a special product for the cuisine market, 'Z Oil'. It is sold under two different names, Perfumiser and Zing Oil, though the product is exactly the same.

Perfumiser is to be applied to kitchen equipment and surfaces in the restaurants to remove traces of spice. It is only sold to trade customers in 10 and 20 litre cartons. It is sold at £4 a litre, plus VAT.

Zing Oil is used for cooking purposes and as a food dressing. As such it is sold to retail customers in 0.5 litre and 0.25 litre containers, bearing the label 'Zing Oil - premium food oil'. It is sold in special dispensers, which cost Kitchen Oils Ltd £1.10 (regardless of size). These dispensers are only available with the purchase of Zing Oil. The label on the container states: 'The special dispenser is suitable for a wide range of uses.' The 0.25 litre dispensers filled with oil are sold for £2.80 each. The 0.5 litre dispensers filled with oil are sold for £4 each. The sales are treated as zero-rated for VAT.

Whilst recognising the different uses, the new Finance Director of Kitchen Oils Ltd is anxious to ensure that the company is accounting for VAT correctly.

**Requirement:**

**Explain, with reference to relevant case law, the VAT issues arising in respect of the above. You are NOT required to consider any issues relating to penalties or interest. (15)**