

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

May 2022

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 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are Derya Tarhan, tax manager at Kavak LLP, a firm of Chartered Tax Advisers. You have received a letter (**EXHIBIT A**) from Debbie Harriday, who has recently become a client of the firm. Debbie carries on business as a self-employed mobile hairdresser, providing her services to clients in their own homes, or at care homes where they are long-term residents.

Debbie has received a proposal (**EXHIBIT B**) from David Blacklock, Development Director of Curabimus plc, which operates the care homes where some of Debbie's clients live. Curabimus plc is constructing a new Extra Care Unit, called "Wychwood". "Wychwood" will include a cafeteria/restaurant and a Personal Care Suite comprising a hair salon (with two chairs) and a separate beauty treatment room. Curabimus plc are proposing that Debbie takes a lease of the whole suite. They have in mind she will provide her own hairdressing services using one of the chairs. They are also willing for her to make appropriate arrangements for the second chair and for the beauty treatment room.

Debbie's civil partner, Joanne, is a self-employed beautician. Debbie is considering how best to involve Joanne in the venture. Joanne's sister, Merle, is also a hairdresser, who is seeking a new position. Joanne has provided some financial information for herself and Merle (**EXHIBIT C**).

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Debbie Harriday

EXHIBIT B: Letter from David Blacklock, Development Director of Curabimus plc

EXHIBIT C: Note from Joanne Baptiste

EXHIBIT D: Pre-seen information

Requirement:

Write a letter to Debbie recommending an appropriate business structure if she accepts Curabimus plc's proposal and advising on the involvement of Joanne and the use of the second chair by Merle.

Continued

EXHIBIT A

Letter from Debbie Harriday

Derya Tarhan
Kavak LLP
Abacus House
Ledger Street
Barnet Magna
BE1 3DD

Flat 6, Crest House
Cutters Lane
Thatchford
Barnetshire
BE22 4XY

3 May 2022

Dear Derya

I hope this finds you well.

A business opportunity has come along on which I need your advice and recommendations.

I enclose a letter from David Blacklock, of Curabimus plc (**EXHIBIT B**), which explains what they propose. The new personal care suite will have two hairdressing chairs and a separate beauty treatment room. The lease that they are thinking of offering me seems very attractive. Once "Wychwood" is fully occupied, my clientele and turnover could potentially increase by 50%, as Curabimus plc would also allow me to offer services to non-residents. One worry is that I won't be able to work full-time in the salon and also look after my other clients. Joanne had the brilliant idea of asking her sister, Merle, to come and provide hairdressing from the second chair. But I'm not sure what kind of arrangement I should consider offering her.

Since getting together, Joanne and I have often talked of pooling our talents and maybe going into business together. She is a mobile beautician and, like me, self-employed. A few of her clients are residents in the care homes, but most are younger women who live in their own homes. She wants to increase her clientele and the new beauty room at Wychwood seems a golden opportunity for her. I am wondering, therefore, whether we should continue to run our separate businesses or whether, at some point, we should join them together. I would like your advice on what kind of business arrangements we should consider.

If it helps you, I estimate that currently about half my turnover comes from residents in the care homes. The rest of my turnover comes from clients I visit in their own homes. I do all my own bookings by phone or by text. I estimate that, if I keep my prices the same, the new salon could potentially increase overall turnover by 50% once "Wychwood" is fully occupied. The fit-out of the personal care suite is expected to cost around £20,000 plus VAT, but Curabimus plc have offered to contribute £15,000. I attach a note (**EXHIBIT C**) provided by Joanne, giving more information about her and Merle.

I'm sure there will be lots of tax issues to consider. Before deciding how to go forward, I would welcome your advice and recommendations.

I look forward to hearing from you.

Yours sincerely

Debbie

Continued

EXHIBIT B

Letter from David Blacklock, Development Director of Curabimus plc

Ms Debbie Harriday
Flat 6, Crest House
Cutters Lane
Thatchford
Barnetshire
BE22 4XY

Curabimus plc
Chronos House
The Plaza
Eskleap
EK5 6TT

25 April 2022

Dear Debbie

Development of Wychwood

It was a pleasure to meet with you last week and discuss our new Extra Care Unit ("Wychwood").

As you are aware, work on the project is almost complete. Wychwood will offer accommodation for up to 100 new residents. The building will benefit from the most up-to-date facilities and will include, on the ground floor, a cafeteria/restaurant. We are in negotiation with a leading firm of caterers to operate this. Also, on the ground floor, there will be a personal care suite, which will comprise a hairdressing salon, with two hairdressing chairs, and a separate beauty treatment room. Our residents speak very highly of your services. We should, therefore, like to offer you the opportunity to take a lease of the personal care suite (subject to contract). Before drawing up formal Heads of Terms, I thought I should write summarising what we discussed.

- 1) The lease of the personal care suite would be for a 15-year term, commencing in June 2022.
- 2) The annual rent will be £5,500, plus a service charge (estimated at £500 per annum). We will allow a rent-free period of 24 months. Rent reviews (upwards only) will be at five-yearly intervals, the first such review on 25 June 2027.
- 3) The salon is to be fully fitted-out by you (to specifications as discussed and already agreed with us) and completed by the end of July 2022. On your entering into the lease, we will pay you a contribution of £15,000 towards the cost of these works.
- 4) We would require you to give booking priority to residents of "Wychwood" and personally to provide hairdressing services from one of the chairs in the salon. However, you would be free to make your own arrangements in relation to the second chair and for operation of the beauty treatment room (subject to our approving such arrangements). You would also be free to offer hair and beauty products for sale from the premises.
- 5) No employment relationship is created between you (including any third party) and Curabimus plc, nor will either party act as the agent or independent contractor of the other.
- 6) Curabimus plc has exercised the option to tax on Wychwood and will therefore charge VAT on the rent and service charge, after the end of the rent-free period.

I hope you will find these proposals attractive.

I look forward to hearing your thoughts, so we can proceed in drawing up the formal Heads of Terms and the Lease documentation.

Yours sincerely

David

David Blacklock
Development Director

Continued

EXHIBIT C

Note from Joanne Baptiste

Joanne Tina Baptiste (born 1 May 1996)

I run my own beauty treatment business, started in January 2018. I travel round providing beauty treatments and products to ladies in their own homes, though a few of them live in care homes. At the last count, I had 100 regular clients which I am looking to increase.

To date, I have done my own books and tax returns. Year-end is 31 December. I'm not VAT registered. My figures for the last three years were:

<u>Accounts</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
	£	£	£
Income	31,500	24,720	23,225
Expenditure	9,450	9,200	8,250
Profit	22,050	15,520	14,975

I want to work with Debbie, my partner, and I'm very interested in the new beauty room at Wychwood, which I guess could increase my takings by as much as 50%.

Merle Lauren Baptiste (born 31 January 2003)

Merle is my little sister who qualified as a hairdresser in 2020. She was employed as a stylist in the salon at Sandilands Hotel, Grimsdale, from April 2021 to February 2022 when it closed down and she was made redundant. Her salary was £14,000 a year. She is looking for another role on the same, or better, salary.

Continued

EXHIBIT DPre-seen informationClient Name

Deborah Anne Harriday (known as "Debbie").

Address

Flat 6
Crest House
Cutters Lane
Thatchford
Barnetshire
BE22 4XY

Telephone

07779 890 901

Client background

Date of birth: 2 April 1994.

Debbie is UK tax resident and domiciled. She resides with her civil partner, Joanne Tina Baptiste, who is also UK tax resident. They have no children.

Business

Sole trader carrying on business as a mobile hairdresser since 1 April 2016.

Debbie provides hairdressing services and sales of hair products to clients in their own homes or who reside in care homes. Debbie holds the National Vocational Qualification (levels 1-4) in hairdressing.

Tax

UTR 41436 74321
NI No. WW003994H

VAT

Not VAT-registered

Extracts from the Financial Statements for the year to 31 March 2022

	<u>2022</u>	<u>2021</u>
	£	£
Income:		
Sales	52,750	41,720
Interest	34	22
Total income	52,784	41,742
Less Expenditure:		
Equipment & hair products	6,120	4,875
Clothing and laundry	2,070	1,525
Advertising	300	210
Telephone	900	750
Stationery	240	180
Subscriptions	155	145
Bank charges	240	215
Accountancy	600	540
Motoring expenses	3,780	2,470
Total expenses	14,405	10,910
Profit before taxation	38,379	30,832