Institution **CIOT - CTA**
Course **Adv Tech Domestic Indirect Tax**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1064**	**4736**	**5762**
Section 2	**658**	**3106**	**3742**
Section 3	**613**	**3012**	**3603**
Section 4	**673**	**3104**	**3752**
Section 5	**923**	**4131**	**5029**
Section 6	**845**	**3895**	**4705**
Total	**4776**	**21984**	**26593**

Answer-to-Question-_1_

VAT group - office space for hire
sub company with parent & other subs
calendar quarter stagger
shares in OfficeRite being sold on 1/6/25

prior to share sale, OR will sell 900 year lease in 1NR to SS (parent company)for £1.5mil on 31/5/25 - instalments to be paid from 1/7/25 by SS to OR - if title does not pass until after 31/5/25 then OR retains entitlement to rents under the leases

1NR is commercial building 3 equal floors built 1890 strict plannign consent from council
top 2 floors leased to SS for use as head office at market based rent (£84k p/a)
ground floor to charity at discounted rent £12k p/a for use in hosting wellbeing classes
no OTT taken and uses standard method to recover VAT

£300k new windows
£450k roof improvements
£150k new meeting rooms
£30k painting & decorating
all ex. VAT

work began May'24 finished Jan'25

VAT group YE Mar'24 & Mar'25 was 100% residual recovery under PE standard method

VAT treatment of sale of the property

As the option to tax (OTT) has not been taken by OfficeRite (OR), the sale to SmallStudy (SS) will be exempt from VAT.

However, as OR and SS are part of a VAT group, the supply of the building will be disregarded for VAT purposes under VAT grouping rules. This should be unaffected by if OR took the OTT over the building due to VAT grouping rules.

The sale of the building from OR to SS will not count as a TOGC on the basis that as title of the building will likely not pass until after the sale has completed on 31/5/25 as OR will retain entitlement to the rents under the leases during the interim period until title passes. Had entitlement to the lease payment from T2 transferred to SS then this sale could have qualified as a TOGC and been outside the scope of VAT.

The tax point for the assignment of the leasehold will be the date it is assigned, i.e., on 31/5/25. It is irrelevant that periodic payments will be made for the payment of the building. Therefore, the payment for the building will be disregarded for VAT under VAT grouping rules.

Whether to opt to tax

As OR has not taken the option to tax, this will mean it cannot recover any of the VAT incurred in relation to the refurb work (Net total of £930k, VAT total £155k) and this will be an added cost.

OR should consider taking the option to tax over the building as this will only affect the supplies to Together2 (T2) as rent charges to SS are disregarded per the abovementioned VAT grouping rules.

Given the nominal rent charged to T2, adding 20% VAT to the rent (assuming no condition of the rental contract precludes this) will only add £2,400 to the annual rent. As the wellbeing class is likely to be considered taxable activity (assuming the VAT exemption for health & welfare does not apply), the charity could recover this VAT as a cost component of its supplies of wellbeing classes. If the charity will only make exempt supplies or the contract precludes OR charging VAT on the rent then this would either have to be or could be absorbed by OR in the rent charged. Weighing up £2.4k of VAT against the potential to recover significantly more VAT on the refurb costs should be an easy decision for the business as a whole (with input recovery of up to £155k available, subject to the below)

By opting, this would allow OR to recover the VAT incurred on the refurb costs. OR must have the intention to make taxable supplies once the OTT is in place to be able to recover input VAT incurred prior to taking the option. OR would have to retain proof of intent to make taxable supplies (by default its supply of rent to T2 would become taxable with an option to tax.

The VAT incurred on the refurb, the input VAT should be apportioned to whether it is incurred on making taxable supplies or not:

New glazing on windows - 1 floor is taxable to T2 so apportioned to 33% recovery (£60k/3 = £20k input VAT)
Improvements to the roof - affects the whole building, 33% recovery (£90k/3 = £30k input recovery)
Meeting rooms on top floor - used by SS, recovery dependant

Painting & decorating - 1 floor taxable to T2 so apportioned to 33% (£6k/3 = £2k input recovery)

Where supplies are made by OR to SS, the onward supply by SS to outside the group determines whether the input VAT incurred in relation to the 2 floors occupied by SS. If SS makes taxable supplies then the input VAT can be recovered, if exempt no input VAT can be recovered on the apportioned amount - if a mix of taxable & exempt then an apportionment based on the split between taxable & exempt

The tax point for the services is when they are supplied (completed), unless the suppliers invoiced or took payment at a date prior to the completion data (including partial payment) and input VAT should be recovered according to these tax point rules by OR (assuming the OTT is taken per the above)

It should be noted however that as indepedent contractors have done each part of the refurb, if the OTT is taken then the value of the glazing & roof improvements would fall within the scope of the Capital Goods Scheme and recoverability of the VAT on these expenses would need to be apportioned along the partial exemption computation and consideration of whether SS will use the top 2 floors for taxable &/or exempt supplies.

Share sale

The sale of shares in OR will be a VAT exempt supply under Sch.9 Grp.5 and no input VAT recoverable in relation to the share sale.

As the shares in OR will be sold, this will mean that the conditions for OR to be part of the VAT group will cease as it will not be under common control (assuming for more than 50% of shares being sold) so will have to leave the VAT group.

This share sale would bring to an end the current capital good scheme adjustment period (per the above if the OTT has been taken) and a new 12-month adjustment period will commence from this date.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

leases vans to insurance companies for their insured customers to use as courtesy vans lease payments governed by contracts setting out rates for type and size of van with payment due once van returned

leasing period typically 1 - 6 months, but given unknown length of contract invoices not raised until after payment made
statement of account produced bi-weekly showing amount accruing
if no payment received within 30 days of van returned, DD may invoice anyway

many cases DD failed to raise invoices or statements or chase payments
no invoices raised on contracts expired in last 9 months

plans to sell completed but unpaid contracts to BB at 50% of face value (non-recourse basis)

has claimed BDR on some completed contracts unpaid between 1 & 12 months

where contracts still in progress, DD intends enter into arrangement with 3rd party (VB) where DD will retain right to receive amounts due by VB will receive future income in return for discounted fee paid upfront - provides DD immediate cashflow

in some instances, title of vans will pass to VB meaning VB acquires rights to income and obligations to provide vehicles to insured - DD will retain some vehicles to ensure has some assets in the business

VB will take over accounting function and raise invocies for all current contracts immediately upon purchasing the contracts, passing back monies owed to DD as appropraite

HMRC ruled not a TOGC

Bad Debt Relief application to debt and selling unpaid contracts to BrokerBank

Initially the BDR conditions must be considered per Notice 700/18; most importantly, the debt cannot have been sold or factored, and must have been outstanding for at least 6 months from the later of the time payment was due and the date of supply (tax point).

Where the debt has been sold to a factoring company (Brokerbank) and the assignment is absolute then bad debt relief is not available on these debts. If the assignment is not absolute then BDR cannot be claimed during any period the debt is assigned.

Payment by Brokerbank for the debt is an exempt supply of finance and therefore disregarded for the purposes of BDR.

For debt which has not been factored, where it has been outstanding for more than 6 months from either when the contract was concluded (completely) or when payment was due (on completion of the contract)(and assuming the other conditions per 700/18 are met) then BDR can be claimed, whereby the amount of VAT owing is deducted as input VAT in box 4 of the VAT return by DriveDifferent (DD).

Given BDR has only been claimed in relation to contracts which concluded at least 6 months prior, the claims to BDR to date appear to be acceptable.

DD should ensure it does not sell any debt to Brokerbank (BB) on which BDR has already been claimed.

Sale of right to future income and vans to VanBorrow on existing contracts

The assignment of obligation from DD to VanBorrow (VB) is effectively a novation of contract and any fee DD receives from VB for the assignment of rights will be subject to 20% VAT as the initial supply to the insurance company would have been subject to 20% VAT. VB will then be liable for accounting for VAT on the provision of services moving forward.

Sale of the van to VB would similarly be subject to 20% VAT, if any vans were sold indepedent of an ongoing obligation to provide services to the insurance companies.

Where VB collects debt from DD's customers on behalf of DD, DD should account for output VAT on this debt. If BDR has been claimed in relation to the debt then DD will still have to pay over the output VAT (this offsets the input VAT deduction under the BDR claim which was related to the initial output VAT payment - effectively resulting in the correct amount of VAT paid by DD without DD being out of pocket).

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

sells domestic appliances & personal electronics

new loyalty scheme - loyalty card
existing customers refer friends to receive bonus in return - if new customer purchases product, new customer gets 5% off & existing customer £20 credit against next purchase

loyalty scheme includes extended warranty FOC on white goods & discounted rates on maintenance programmes for electronics

£50 for extended warranty for non-scheme customers
insurance provided by separate unrelated 3rd party - clear in contract - Protexxion
separate agreement, WG receives £5 commission for every sale paid-for warranty
for freely given warranties, WG takes out commission in own name from Protexxion to cover potential loyalty scheme customers making a claim

maintenance programme costs £100 per year but loyalty customers get for £60 - entitles 2 inspections per year by partner business Electpair with minor maintenance
Electpair invoices WG for work carried out
WG set limit on type of work and cost Electpair can incur

VAT implications

Where a 5% discount is granted on a sale, this is merely a reduction in consideration received so VAT should be accounted for on the amount actually received by WG.

Similarly, where a £20 credit is put on the account of the customer to offset against their next purchase, this represents a reduction in consideration and VAT is due on the consideration actually received. WG is not actually issuing a refund or credit note to its customer but merely reducing the consideration which the customer must pay for their next purchase.

These VAT treatments follow the VAT rules for 'Loyalty discount cards' as set out in Notice 700/7.

The sale of the maintenance programme will be subject to 20% VAT by WG. Similarly, the maintenance service provided by WG by Electpair will be subject to 20% VAT. Maintenance services are not contracts of insurance so are not exempt from VAT. The VAT incurred by WG from Electpair will be deductible as input VAT as whilst this VAT is not a cost component of an onward taxable supply by WG, it is a cost component of WG fulfiling its contractual obligation to its customer to maintain and service the goods it it selling (per Loyalty Management)

The extended warranty which is sold for a fee is a supply of insurance and therefore is exempt from VAT under Sch.9 Grp.2

IPT implications

Extended warranties of domestic appliances sold for £50 are subject to the higher rate of IPT at 20% when arranged through the supplier of domestic appliances, even if under a separate contract. As WG is arranging for the insurance on the goods from Protexxion this will make the insurance subject to 20% IPT.

WG will be required to register for IPT, 30 days prior to its intent to start collecting payments which includes the commission it receives from Protexxion. WG will be required to account for 20% IPT on the £5 commission received (£0.83 of IPT)

However, where the extended warranty is included free of charge to loyalty scheme members, this is outside the scope of the higher rate. IPT is however due at the standard rate (12%) on the amount passed on to the insurer in relation to the extended warranty on the applicance. IPT is calculated at 12% on the VAT inclusive sale price of the appliance.

Where insurance is taken out by WG from Protexxion to cover itself in the event of a claim by a loyalty scheme customer who has received free of charge insurance, the payment for insurance by WG to Protexxion will be subject to IPT.

As above, the maintenance programmme (service contract) is not a supply of insurance but rather maintaining and servicing goods. It is not subject to IPT.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

300 convenience stores - average £6mil ex. VAT sales per quarter

high protein flapjack - Glanbia - £196,950 in last 12 months of sales currently 0%

turmeric shots - £3.60 each including VAT - 100,515 units sold last 12 months (£361,854 gross = £60,309 VAT) - unjust enrichment if get a refund

large marshmallows - £3.75 with 50% markup
sold on own or with 3 reusable skewers (each skewer cost price £0.15)(linked goods 6.1 food notice)
total gross of large marshmallows & marshmallows + skewers is £96,516 (£32,172 from w. skewers)
has accounted for VAT but absorbed into its price to be competitive

Flapjack

Whilst flapjacks are usually subject to 0% VAT as cake, as a result of the Glanbia case, high protein flapjack in the form of a bar for consumption on the go was found to be confectionery and therefore subject to 20% VAT.

This means that where S4L has incorrectly applied the wrong VAT rate it must still account for the VAT on the sales but from the amount already charged to the customer

(£39,390 (196950/5)) to HMRC.

As the amount of the error is between £10k & £50k and is less than 1% of the Box 6 figure (on average £6mil) this means the correction for this error could be included on S4L's next VAT return, rather than needing to make adjustments to all VAT returns submitted in the last 12 months splitting out sales by period.

Turmeric shots

Food of a kind used for human consumption is subject to 0% VAT. Food includes drinks.

Fruit juices are subject to an exception to this and are subject to 20% VAT.

Blended smoothies are subject to 20% VAT per Innocent tribunal case and are not liquid salads.

Meal replacements in liquid form are 0% (Core tribunal case) but these shots are not meal replacements, they are for between meals as an energy boost.

Overall, the shots are likely to be subject to 20% VAT as a product pre-mixed in liquid form and held out to provide an energy boost (the same VAT treatment as sport nutrition drinks)

By being subject to 20% VAT, this does mean that S4L has correctly accounted for VAT on these sales.

Marshmallows

Giant marshmallows are the subject of an ongoing tribunal case and have been referred back to FTT to determine if they are eaten with hands according to the average person on the street to determine if 0% or 20% VAT should be applied.

The current position of "mega marshmallows" used in making s'mores is they are subject to 0% VAT as food and do not fall within the 20% confectionery override.

This means that where S4L has been absorbing the VAT into the sale price to be competitive, it has been incorrectly charging VAT. HMRC are highly unlikely to refund the VAT already accounted for, citing unjust enrichment (as it is considered nigh on impossible that the customers who bought the marshmallows will be refunded the VAT they were incorrectly charged (this was part of the discussion of the M&S case where chocolate teacakes had been incorrectly charged with VAT). Therefore, S4L should take account of the current 0% applicable which will either result in a higher margin or mean that the marshmallows could be sold at a lower more competitive price due to the lack of VAT payable and keep an eye on the ongoing Tribunal saga.

The sale of the marshmallows with skewers as promotional packs will be subject to VAT according to the principal element (the marshmallows). This is because the linked goods rule.

The linked good rule is met as:

a single price is charged for the marshmallows & skewers
the marshmallows cost £2.50 to S4L to buy so the skewers should cost less than 20% of the supply (the skewers cost £0.15 each so £0.45 total, this is less than 20% of the cost of

the total supply (£2.95)

the skewers similarly cost less than £1

This allows the promotional packs to be sold with 0% VAT too.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

UK based insurer - PAI
part of 20 company VAT group - representative member
5% overhead recovery standard method

needs new customer service platform (technology), access online account, amend / update current insurance policies / get online help RE new products

wants to buy a business who can do this
H2A fully taxable so no PE restrictions
developed a platform which PAI will adapt for its own needs
H2A to only supply its services to other members of existing VAT group

2 options:

PAI buy shares in H2A for £5mil & H2A join VAT group

purchase assets of H2A for £4.75mil (goodwill, staff, IP, freehold on office building constructed Mar'24 (value £600k) & 6 servers (purchased APr'24) value £120k ex. VAT total
PAI aware of basic TOGC conditions

Option 1

The purchase of shares in H2A by PAI will be subject to 0.5% stamp duty.

Based on the shares having a value of £5mil, this will mean £25k of stamp duty payable by PAI as purchaser which must be paid to HMRC *at the time xxx*

In joining the VAT group and providing its services to other group members, H2A's supplies would be disregarded for VAT under VAT grouping rules which would be beneficial to the group which has a very low overhead recovery method under the standard method (which assumes that 95% of the group's activity is VAT exempt) so recovery of VAT on supplies by H2A to the group where H2A was outside the group would not result in a favourable recovery rate, except where the services were supplied to the group solely or almost exclusively for its 5% taxable activity (which seems unlikely).

As H2A is still within the adjustment period for the capital good scheme (more details under Option 2), the current adjustment period would come to an end on the day before H2A joins the VAT group and then a new 12-month adjustment period commences, ending on the anniversary of that date.

Option 2

The office block which H2A owns the freehold of is above the threshold for the Capital Good Scheme (CGS) for land and property (£250k ex. VAT at the time of purchase). As this is a commercial building under 3 years old, it would have been sold with 20% VAT without an option to tax needing to be made and therefore fall within the scope of the CGS.

Where PAI acquires H2A as a TOGC, it will have to carry on making CGS adjustments each year based on use.

As H2A is wholly taxable, it would have been entitled to 100% recovery of the VAT incurred on the purchase but as PAI as at best partially exempt in its own right (as an insurer) and is part of a VAT group which is partially exempt, this means that use of the building will not be for wholly taxable purposes and will mean that VAT will be repayable to HMRC each year of the remaining adjustment periods based on the percentage of exempt use PAI uses the property for (assumed to be 9 years based on a 10 year adjustment period for land & property for a property constructed in Mar'24).

10 year adjustment period with 100% upfront recovery due to H2A having 100% taxable use means 9 years of adjustments.

Assuming £100k of VAT (if we assume the purchase price hasn't changed from its current valuation so £600k), this is £10k of VAT per adjustment at risk which based on 5% overhead recovery within the group would mean a repayment of £9.5k VAT per adjustment period spanning 9 years to HMRC (£85.5k repayable to HMRC total over the life of the building)

Conversely, if the property was allowed to be purchased outside the scope of a TOGC (not the case due to it being under 3 years old and standard rated by default), if it is valued at £600k, it would include payment of £100k of VAT (due to being commercial & under 3 years old), so assuming for it being an overhead expense of the group with 5% recovery, this would mean £95k is lost in VAT over the lifetime of the asset under CGS adjustments so acquiring as a TOGC within an existing CGS adjustment period would be beneficial to PAI.

The computer servers whilst cumulatively above the CGS threshold for computers (£50k ex. VAT), as the servers are individually valued at £20k ex. VAT each they do not fall within the scope of the CGS and could be included within the scope of the TOGC too.

Stamp Duty Land Tax will be due on the acquisition of the building based on non-residential rates, despite it being acquired as part of a TOGC.

Using the value of £600k, this is the amount SDLT will be due on.

£0 - £150k = 0% - 0 SDLT
£150,001 - £250k - 2% = £2k SDLT
£250,001 + - 5% = £17.5k SDLT
Total £19.5k SDLT which will be payable by PAI via a land transaction return within 14 days of completion

Conclusion

Overall, there appears to be far more benefit to PAI to go with Option 1. The stamp duty payable in purchasing the shares is far less than the cumulative amount of SDLT, plus VAT which would be due back to HMRC under the remaining adjustment periods for the office freehold.

H2A can join the VAT group and provide its services whilst remaining wholly taxable in itself and enjoying 100% recovery of the input VAT over the remaining adjustment periods of the office building.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

UK resident - will keep London home
build holiday home in Cornwall (will not rent out when not in use)

start holiday let business in Cornwall
3 acre plot (bare land, non-residential - has barn not used in 15 years)
build holiday homes on plot

will buy barn + land for £355k + VAT (£71k VAT) - seller taken OTT

convert barn to holiday letting accom (4 fully furnished apartments)
income from holiday letting business from 4 apartments will total £120k p/a

hired architect (20% VAT on fees)

will buy kitchens & bathroom units from third party suppliers and husband will fit in holiday home + flats (DIY housebuilder?)

current landowner wants to buy freehold of one completed apartment for £185k (exempt?) - Ann may offer 5 year lease instead (exempt)

SDLT on the purchase of the land

Ann appears to be a UK resident judging by her London address so she will not be subject to the 2% surcharge for non-residents buying residential property.

However, as this is a sale of bare land with a barn which has not been used for 15 years (i. e., no current commercial activity), this will be a sale of non-residential land and be subject to 'non-residential rates' as Ann is not purchasing an existing dwelling.

SDLT is due on the VAT charged on the land by way of the OTT so the total price SDLD is calculated on is the price paid for the land, £426,000.

The 3% surcharge for an additional property will not apply as the purchase of bare land and the barn are non-residential at the time of purchase

As stamp duty is due on a slice system:

£0-150k - 0% = 0 SDLT
£150,001 - 250,000 = 2% = £2k SDLT
£250,001 + = 5% = £8,800 SDLT
Total £12,800 SDLT due by Ann who must submit a land transaction return to HMRC within 14 days of completion of the purchase(and pay the SDLT due)

VAT on costs of developing the holiday home / letting accommodation

Holiday home

The construction of the holiday home is designed as a dwelling so the construction service from the builder can benefit from 0% VAT

Goods which are building materials and are supplied by the builder as part of the construction also benefit from 0% VAT.

The carpets do not qualify as building materials and will be subject to the 'builders block' for input VAT meaning therefore will be subject to 20% VAT which will be non-recoverable by Ann. This applies to the letting accommodation too.

The architects fees are also excluded from the zero-rating and are subject to 20% VAT. This applies to the letting accommodation too.

The kitchen & bathroom bought by Ann will be subject to 20% VAT as they have not been purchased and supplied by the builder who is also doing the installation. However, this VAT could be recovered under a DIY Housebuilder Scheme refund to put Ann & her husband in the same position as a general builder so this VAT should not be a cost.

With the exception of the kitchen & bathroom under the DIY Scheme, no VAT incurred by Ann will be recoverable as the holiday home is for her own private use with no business use intended so the VAT on the carpet & architect fees will be a cost to Ann.
(Architect fee falling within the scope of the DIY Scheme and eligible for refund?)

Letting accommodation

The barn which will be converted into fully furnished residential dwellings, the service charged to do the conversion will be subject to 5% reduced rate VAT on the basis the barn is not a property with multiple occupancy dwellings prior to conversion but will be post-conversion and will not be used for a relevant residential purpose.

Freehold or short-term lease to land owner

This is a separate transaction under a separate contract and does not concern additional payment to the landowner by Ann so would not impact the initial purchase of the land from the landowner, i.e., is not contingent or uncertain consideration.

If Ann was to sell the freehold in one of the holiday lets, this would be a supply of a residential property and subject to residential rates:

If the apartment was the land owners main property then the 3% surcharge for additional residential properties would not apply but if it is an additional property the additional surcharge would apply.

A sale for £185k would fall wholly within the 0% Basic Rate for SDLT but if the 3% surcharge applies then this would be payable by the landowner on completion (or at the time of substantial performance if earlier (such as exclusive occupancy).

3% of £185k consideration would be £5,550 SDLT payable by the landowner.

If Ann was to grant a short-term lease, assuming the lease does not exceed £250k (deemed likely given the freehold is on offer for £185k)then no stamp duty would be payable by Ann on the granting of the short-term lease.

As this is a residential property, the sale would be exempt from VAT.