

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	<b>1103</b>	<b>5155</b>	<b>6219</b>
Section 2	<b>1008</b>	<b>4607</b>	<b>5583</b>
Section 3	<b>723</b>	<b>3253</b>	<b>3901</b>
Section 4	<b>1463</b>	<b>6598</b>	<b>8014</b>
Section 5	<b>1205</b>	<b>5328</b>	<b>6494</b>
Section 6	<b>990</b>	<b>4424</b>	<b>5371</b>
Total	<b>6492</b>	<b>29365</b>	<b>35582</b>

## Answer-to-Question- \_1\_

### Intro

As Miltoon is providing primarily non-business supplies and the other entities are not VAT registered on account of making non-business and exempt supplies, it is not ideal for any of the entities to incur any VAT.

The supply of a retreat by Miltoon group go beyond those of education, or welfare and will not benefit from any exemptions and will be treated as standard rated service. The Miltoon group will therefore likely exceed the VAT threshold and be able to recover any VAT incurred on goods and services.

The current structure where Miltoon buys properties and lets them out to the connected company is i assume all unopted and exempt leases are made.

### Gift of shares

The gift of shares from the US benefactor to Milton is an exempt supply and has no VAT consequences as it is not made for any consideration.

### Tours

If Starling retreats purchases and resells travel services and tours this will form a package that falls under the Tour Operators Margin scheme.

Supplies made under the Margin scheme do not follow the normal VAT rules for input and outputs. instead VAT is charged on the profit margin i.e the difference between VAT

inclusive inputs and outputs.

As Starling is buying in transport and the tours from another operator, this operator will likely charge VAT on their supplies, this cannot be recovered.

The TOMS scheme is not optional and must be applied if Starling falls into it.

The property could also be viewed as bought in and resold where it is not materially altered. If the property is also bought in and resold then mandatory Toms will apply.

This can be beneficial where supplies bought in are exempt and onward supplies are taxable but as Miltoon intend to opt to tax there is little benefit here. To ensure the supply does not fall within Toms and is instead treated as an inhouse supply subject to normal VAT rules, Starling should ensure to materially alter the rooms, before providing them onward to travellers.

As Starling is not VAT registered it will only have to register when the VAT registration threshold is exceeded. Only the margin on Toms supply is considered when calculating if a business has breached the VAT threshold and use of Toms could delay the business exceeding the threshold until actual profits exceed £85,000 rather than taxable turnover.

### Property considerations

There are a few issues that may arise as a result of the proposed arrangements:

1. If the property was previously commercial property and any option to tax was

disapplied on sale due to the property being used for 95% charitbale use, then a self-supply will incur if the property is put to a different use within 10 Years. As it has recently been bequeathed we can assume this is in point and Miltoon should verify this point to prevent any unexpected liability.

2. Miltoon has incurred £1,500,000 of VAT on the development and ideally wants to recover this VAT. This VAT can only be recovered if hte property is opted and used to making ongoing taxable supplies.

There is a risk of the displication of hte option to tax occuring.

If Miltoon make a lease back to Birmingham then as Miltoon own 100% of Birmingham they are connected parties.

The spend on the works fall within the capital goods scheme and input tax must be adjusted for a period of the next 10 years based on use.

When a business grants a supply of a proeprty that is or will be in the capital goods scheme to the grantor, development financier or a connected party who's activities are more than 80% exempt or non-business then the disapplication of hte option to tax will apply.

As the two parteis are connected, it si a CGS asset and Birmingham carries out wholly non-qualifying activities that part of hte lease would be exempt and 7% of the input VAT on the lease would be treated as exempt leading to that adjustmetn over the next 10 years unless exempt use increased.

I.e. £105,000 of input tax would not be avaiable for credit.

If instead the lease is supplied in its whole to Starling the OTT will not be disapplied.

A. there is only 49% ownership so the two parties are not deemed to be connected.

B. Starling once they register will be putting the property to qualifying use.

This means the taxable use will be 100% taxable and all of the input tax will be available for recovery.

This will have implications for Starling however unless they also opt to tax the land.

Starling will be making 7% exempt use of the property (under 20% no still no disapp) as it will be making exempt rental supplies to Birmingham.

This means that Starling will be partially exempt and will only be able to recover a portion of the input VAT incurred on the lease.

Starling could opt but then Birmingham would not be able to recover any of the input VAT it is charged on the lease.

Overall, the business will need to weigh up which option provides for the greatest VAT recovery over the 10 years.

There is also a risk that the arrangement could be viewed as abusive by HMRC.

Where an arrangement is put in place mainly for the purposes of gaining a tax advantage and that advantage is contrary to the intentions of parliament then HMRC can recategorise the transaction (Halifax).

The arrangement must have some substance behind it and a commercial reason. If Starling are to take control of the full lease it may be worth including some additional management or placement of staff by Starling relating to the lease to ensure there is some substance to it. The company should also explore if there are other commercial reasons or benefits to Starling taking the lease, if there are genuine commercial reasons then this can support the arrangement. Without these the company may wish to write to HMRC for a ruling to ensure that it does not suffer a clawback on the CGS at a later date.

Moreover, if Starling is partially exempt then they may wish to explore the use of a partial exemption special method likely a sectorised method to prevent overheads suffering from exempt rentals to Birmingham. The rent to be charged will be £80,000 of VAT per year of which £5,600 is related to the exempt ongoing supply.

This will be de minimis and as long as Starling make no other taxable supplies they will be able to treat the full amount as taxable as it is under £7,500 per year.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

Grant funded healthcare is a non-business activity

As such the trust will be performing a non-business calculation and some input tax recovery will be restricted.

### Coffee Shop

As above the trust will be making non-business supplies and any private healthcare supplies will be exempt unless cosmetic.

This means that the trust will be operating a non-business and partial exemption calculation and only able to recover a portion of its overheads.

If the NHS trust operated the coffee shop in house they will be making catering supplies subject to the standard rate of VAT and any VAT on purchases directly related to the coffee shop will be recoverable.

Any overheads that relate to the coffee shop and the other activities will be subject to a restriction that will lead to very little input tax recovery.

Where the area is leased to a third party provider the rental payment will be exempt unless subject to an option to tax. It may be in the interest of the trust to opt to tax the property as the coffee shop provider will be able to recover any VAT charged.

The turnover section of the lease will also be subject to VAT if the trust opts the property. This is not a separate supply but is further consideration for the lease.

Either way the trust may wish to look into a partial exemption special method based on floor space or headcount that can allow for a fairer and more reasonable amount of input VAT recovery.

### Car parking

The works on the car park will be standard rated and will fall within the capital goods scheme as the total spend is in excess of £250,000.

The trust will be required to calculate their baseline recovery and adjust for taxable use of the next 10 years.

The supplies of parking for a charge are a taxable supply. It should be noted that in the Northumbria case it was held that the parking was not able to be exempt under item 4.

Staff being provided parking is done so in the course of furtherance of business and there is no deemed supply on the parking () but the parking is provided to staff working in exempt and non-business parts of the business.



The parking could htereofe be viwed by HMRC as relating to both the taxable and non-business/exempt parts of the business. This would mean tha there would be a input tax restriction on the capital goods scheme asset.

TO avoid this the trust could charge a small fee to staff to use the car park or ensure a set area is set aside for them to allow for a PESM or mini PESM that can minimise the exempt use of hte car park.

This is only a minimal impact hwoever as it is for the first six months.

The supply of the parking faciltiies online will be a sepaeraete standard rated supply whilst it is not viewed as a single supply.

As the parking is available separetly there is an argument that from the point of view of a typical customer the two supplies are not so closely related that they form from the point of view of a customer a single supply (Levob).

That said, there is an arguemnet that hte parking is ancillary to the main supply of hte private healthcare package and allows for the better enjoyment of the parking package and could be seen as a single supply (CPP).

Overall, as the two items are separetly charged and parking is not necessary for the healthcare package it may be seen as a separete supply. Many customers may not use the aprking and get hte bus etc. Thus, the supply would likely be seen as a separete supply.

Any VAT charged to customers for hte use of hte car park is not recoverable and will drive down the profits from the car park but it will also allow for VAT recovery on the

initial spend.

### Renal department

Currently where the trust runs the facilities itself it will not be able to recover any of the VAT on the consumables or at least most of them as they are not included in the contracted out services provisions and they relate to non-business and exempt supplies.

By outsourcing the facilities operation to the third company the trust will essentially be able to recover VAT on the consumables as the third party company will buy these in at the standard rate, recover the VAT and making an onward taxable supply of them to the trust.

As the consumables are packaged into a single supply of facilities this will fall within the contracted out services provisions and the trust will be able to recover the VAT incurred.

This relies on the supply qualifying as a single supply. A number of cases have come up around this area such as R on behalf of Gloucestershire NHS Trust where it was held that they provided a single supply of healthcare facilities that included consumables etc.

The Trust should make sure that the contracts are structured in such a way that there is a single supply of facilities made to them. The contracts should thus ensure that the third party is actually providing fully managed facilities and the various responsibilities for all the facilities lay with them.

There may also be some property considerations. The trust could grant an opted lease of

the property to the third party. The third party will then be able to lease the proeprty back the trust as part of the facilities. Again the third party will need to ensure that this qualifies as faciltieis and not opted land otherwise it could be subejct to the dispplication of hte option to tax. This will allow for even further recovery by the trust.

Concluision

With the various new income streams the trust may wish to explore the use of a combined special non-business partial exemtpion special method that will allow for hte fairest and most reasonable recovery.

This could be floor space based or divided into sectors.

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-----ANSWER-2-ABOVE-----  
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Answer-to-Question- 3

Direct calculation 2

Direct calculation 2 requires a stock take and an annual adjustment.

As the larger portion of sales are standard rated and have been in the previous business the ESP will be set based on the standard rated sales.

The ESP is calculated using the RRP or mark up of each line of goods.

	Adjusted ESP for standard rated goods	x 1/6 Output tax due each quarter		
June 23	170,000	28,333		
Sep 23	220,000	36,667		
Dec 23	154,000	25,667		
March 24	181,500	30,250		Reduce by £2,500 for the adult stock.
stock adju	£5,000	833.33		
Total		121,750		

### Annual adjustment

ESP of opening stock = £90,000

ESP of closing stock = £85,000

£5,000 of goods sold by retail

Under the M&S case where a deal where a combined price was put in food goods was in place VAT must be due on each of the elements apportioned across for their VAT rate.

Here the promotion allows a buy one get one free this is not the same as combining the items into a discounted price and VAT cannot be reduced because ZR childrens clothes are being given away for free as part of the promotion.

### Apportionment scheme

As the turnover of Mini-T exceeds £1 million they cannot use apportionment scheme 1 and must use apportionment scheme 2.

For Apportionment scheme 2 we calculate VAT using the ESP (expected selling price) of goods purchased and splitting this between Zero rated and standard rated purchases.

This is done on a rolling period looking back at the previous 12 months.

Thus,

Total ZR ESP from June 2022 to March 2023 was £222,110

Total SR ESP from June 2022 to March 2023 was £631,000

The percentage to apply to daily gross takings is therefore 73.96 of sales are standard rated and VAT is 20% so for future periods VAT would have been due as follows:

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Period	DGT	VAT due	
June 23	4		
Sep 23	51,772		
Dec 23	37,571		
March 24	39,050		

An annual adjustment would then have been due to compare the DGT and ESP with actual goods sold.

Going into 2025 the ESP percentage would be updated based on the June 23 - March 24 purchases and the percentage would be

359 for ZR  
728 for SR

The ESP must be adjusted for any additional points from the period. The stolen cash has no impact but the december promotion will.

The promotion has meant that an additional £19,000 of ZR items have been included that were given away and we must reduce the ZR section by £19,000 to 340,000.

We also need to adjust for the stock which at the close of 2023/24 was £32,000 for ZR and £85,000 for SR

This gives £372,000 for ZR

and £813 for SR

Percentage = 0.6860 so 68.6%

If turnover exceeds £130,000 million Mini Ltd will no longer be eligible to use apportionment 2 scheme and may need to agree a bespoke scheme with HMRC.

### Pros and cons of each scheme

Both the schemes require the ability of the shop to calculate its daily gross takings.

The apportionment scheme 2 can be more complex and will come with an administrative burden but could lead to a small cash flow advantage.

The apportionment scheme may also be grown out of if the turnover exceeds £130,000 and a bespoke scheme will be required.

### Stolen Cash

Unfortunately, even when cash is stolen from the register the supply has still been made, VAT collected and there is a debt due to the crown.

Therefore, VAT is still due on the £850 of stolen cash under both schemes and no adjustment is required to the ESP or DGT.

### Promotional scheme

Stock damaged

VAT is not due on stock that has been damaged as this has not been sold on to customers.

Thus, an adjustment can be made for the stock that has been lost

### Ceasing to use the schemes

When ceasing to use the Direct calculation 2 scheme a closing adjustment is required alongside an annual adjustment which will be brought forward to the date the trader leaves the scheme.

The adjustment must take account of any disposals which were not sold.

Under the apportionment 1 scheme a closing adjustment is required.

Under Apportionment 2 no adjustment will be required as the business is not using the scheme in other parts of the business.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

### **Liability of the supplies from the landlord**

#### If supplies individually

The supply of the lease will be subject to VAT as the landlord has opted to tax the building.

The supply of parking facilities is also standard rated when provided separately.

The supply for the buildings insurance will follow the liability of the rent. The supply cannot be a supply of exempt insurance where the cost is simply being passed on from KZ37 to Candy as KZ37 is not the provider of the insurance but rather the recipient.

The supply of separate electricity could be subject to the reduced rate of VAT if it falls within certain limits. As Candy is only a small business it is likely she would fall within these limits and could benefit from a lower rate of VAT at 5%.

#### Where combined into a single supply

If the supplies are combined into a single supply the predominant element of the supply of the land which would be standard rated. Alternatively, it could be viewed as a supply of facilities but this is also standard rated.

This would mean that Candy does not benefit from the potential reduced rate on the supply of electricity.

For the electricity to be supplied separately, it must be charged separately from a secondary meter.

Candy should enquire into whether the electricity can be charged from a secondary meter as it could reduce the electricity cost.

As the electricity is currently charged separately but at a flat rate it is not metered and the whole supply will be subject to the standard rate.

### Why reduce the VAT?

Where Candy is currently VAT registered is able to recover the input tax on the rent as it related to her ongoing taxable business (with the exception of renting without an option).

If Candy de-registers from VAT then she will not be able to recover the VAT on the rent and this will come at an additional cost to her that must be absorbed and reflected in her prices to customers which may eradicate any benefit from de-registering.

### Licence to occupy for dog groomer

To opt or not to opt?

The supply of the room to the dog groomer will be a licence to occupy. This will be exempt from VAT unless Candy opts to tax and remains VAT registered.

If Candy were to opt to tax the room then it will be taxable income (whether she remained registered or not) and will take her turnover from £80,000 to £87,000.

Therefore, if Candy does want to de-register she should not opt to tax the building and should continue to make exempt supplies of the room.

Andi would not be able to recover any VAT charged on the room as he is not VAT registered and if Candy did opt and remain registered Andi may ask for a reduction in rent to take account of the irrecoverable VAT.

It should also be noted that if Candy remained VAT registered the exempt income would make her partially exempt but as she does not want to remain registered it will not explore this any further.

### Supply of facilities to Jane

Errol Willy

In the case of Errol Willy it was held that the supply of a room to two hair stylists with limited facilities was still an exempt licence to occupy.

If the supply here could qualify as an exempt licence to occupy then it would be more appealing to Candy due to the increased turnover.

Unfortunately, the case of Errol Willy has differing facts and i believe that as the facilities here will be clearly utilised and have a driect benefit to Jane's business, HMRC would likely see these as a supply of facilities.

The use of communal areas, shared till and social media is a clear step beyond a basic licence to occupy and differs from the case or Errol willy and similar case of Ruforth Park.

Unlike and exempt supply of a licence to occupy hte supply of faciltiies would be taxable. As above the facilities being taxable is against Candy's plan to deregister from VAT as the extra £8,000 of income will take Candy above the VAT registration thrshold of £80,000.

Therefore, unless Jane can structure the contract so that she is providing a separate supply of the land and faciltiies which i think would be unlikely and potentially viewred as abusive, then Candy's best option to allow for deregistration is to make an exempt licence to occupy to Andi for £7,000 per annum.

This exempt income will not be included in her therapist turnover which currently has taxable income to the amount of £80,000.

### **Deregistration and impact**

When Candy de registers she will no longer charge VAT on her supplies. She should ensure to update her pricing lists and decrease them by 20% otherwise the VAT charged will become taxable income and bring her total taxable income up to £96,000.

Once deregstiered no VAT is charged on supplies and Candy will no longer be able to reclaim VAT on inputs such as consumables and the rent.

Candy can de-register as her taxable supplies are £80,000 and this falls below the £83,000 limit. If Candy exceeds the threshold in the future she will be required to re-register.

Once Candy has submitted her application to de-register ffrom VAT she will be required to complete her final VAT return.

This VAT return will require Candy to charge VAT on supplies up to the point of deregistration. more importantly she will have to make a deemed supply of any goods on hand at the point of de-registration. This charge is based on the replacement cost of the goods and will apply to all goods in hand where the deemed supply would be over

£1,000.

Item	Deemed supply	Notes
Eye lashes	0	Under £1,000
Gel Machines	£240	Gel Machines and Couch need to be separately valued in order to determine if each item is £1,000 of more
Van	£880	
Total	£1,060	

The gel machines and couch need to be separately valued in order to determine if each item is worth of £1,000.

The deemed supply will be first calculated by looking at the replacement cost of identical goods. If the goods are no longer available we look at similar goods, finally if this data is unavailable we look at the cost of manufacturing.

As the goods have a market value of £1,200 we will assume this is the cost of similar goods and use this. It is likely there will be no deemed supply of each item is £400.

Similarly, the van was purchased and upgraded for a cost of £9,200 but if it is not available then we look at the replacement cost of the similar van which could be determined by the market value of £4,400.

If Candy sells the Van to her niece before deregistering for a lower price then it would be subject to a lower amount of VAT of £680 compared to the deemed supply on deregistration of 880.

If Candy does re register for VAT then she will be able to re-recover any VAT on goods still on hand that were purchased up to 4 years prior to VAT registration and any services purchased in the last 6 months that have not been subsumed.

### Conclusion

Before de registering Candy should compare the cost of de registering versus staying registered to ensure it is the best option.

If the rent on the building leads to irrecoverable VAT in excess of £16,000 a year then it may be worth remaining VAT registered.

If she does want to deregister she should make exempt licence to occupy to Andi and sell the VAT to her niece before de registering from VAT.

**IPT on public liability insurance**

The supply of insurance is exempt from VAT.

IPT is due on taxable insurance premiums.

A contract is not taxable if the risk is located outside the UK.

Candy has taken out an insurance policy to indemnify herself.

As Candy is UK based on assuming she has remained in the UK for 183 days of hte alst year then this will be taxable insurance policy and subject to IPT at the standard rate.

There is no implication for Candy immediately as she does not have to register for IPT and the premium is tax inclusive.

Thus £214.29 of IPT is due out of the £2,000 premium. The insurer has an obligation to register (if not already) and pay the premium to HMRC on its IPT return.

If the trader does not register of pay hte IPT then Candy can be held jointly liable for the outstanding amount. this is unlikely but in this situation Candy would be required to pay the premium of £214.29 but she would not have to register etc.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

### Dashcams - single versus multiple

The provision of insurance is exempt from VAT.

The provision of goods is standard rated for VAT however there are further provisions for the lease of goods and hire purchase agreements whereby the supply is either that of services or under HP a mixed supply of goods and exempt finance.

To determine the correct rate of VAT charged we must determine whether there is a single supply of insurance or if there are two separate supplies being made.

There is also a risk of abuse if Montinz are operating a value shifting arrangement whereby there are lowering the cost of the taxable dashcam and incorporating part of its cost into the exempt supply of insurance. HMRC would reserve the right to redefine such abusive transactions under the Halifax principals.

The Case of WIGGI looked at whether black boxes fitted into the cars of insured individuals would be subject to VAT separately or whether they formed part of the single supply and it was held that they were part of a single supply of insurance and were wholly exempt.

This appears similar to this case however, it was held in CPP that each case must be assessed on its own facts so we will review the facts provided.

1. CPP also established the principal of one goods being ancillary to another. The main supply here is clearly the insurance and the provision of the dashcams for a supplementary fee clearly allows for the better enjoyment of the insurance supply.

The fact the dashcams are used to dictate the premium is further evidence that they are there for the better enjoyment of the policy rather than a separate supply.

2. The fact there is not a single price charged was held not to be determinative of whether there was a single supply.

The case of Levob looked at whether the supply formed from an objective point of view a single supply which it would be artificial to split into its component parts. From the point of view of a typical customer they are receiving a single supply of insurance that includes a dash cam as part of it. It would be artificial to split this part of the supply out and if a customer came to Montinz looking for an insurance policy they would not come away with only a dashcam. Moreover, the dashcams are only available for purchase with the insurance policies further supporting they are an ancillary part for better enjoyment.

Overall, I would argue the additional £10 fee for the loan of the dash cam comes within the single supply of insurance and is therefore exempt.

The supply at the end is a bit more difficult as it is not tied into the policy but is a genuine separate supply of the dashcam. The dashcam does not allow for the better enjoyment of the policy as it is for purchase in lieu of the insurance policy. Thus, the final payment to keep the dashcam should be viewed as a separate supply of goods.

If the original supply was viewed as a hire purchase agreement then the £10 to loan the dash cam would have been exempt and the final £15 as it is over £10 would be taxable as a supply of goods.

Moreover, as the final balloon payment is below market value and expected to be taken up the Mercedes case will not apply and the supply will not be viewed as a supply of goods.

Therefore VAT will be due on the final payment at the standard rate to the amount of £2.50

### VAT recovery and PESH

The insurance policy taken out on the dash cams will be exempt from VAT.

The sale of the dashcam at the end of the policy will be a taxable supply.

The business is partially exempt and any inputs will be recovered in line with the partial exemption recovery rate.

The standard method may not provide a fair and reasonable recovery for the £12.50 of VAT incurred on each dashcam.

Currently the dashcam will relate to both the insurance policy and the final taxable sale and under the standard method it would be treated as residual.

The business may wish to implement a partial exemption special method to allow for greater VAT recovery on the input tax for each dashcam.

It should be noted that in the VWFS case it was held this method could not be transaction based and not 50/50 just because there was 1 taxable and 1 exempt transaction as is the case here.

Instead the business may wish to look at how the dashcam is used or recover the VAT based on the value sold on and the value subsumed in the provision of insurance.

i.e. recover 15/75 of the VAT rather than the standard method if it does not provide a fair and reasonable result.

### IPT

IPT is chargeable on the premium which includes the cost of the risk insured, admin and IPT itself. It does not specifically state that the Premium includes items such as dash cams.

IPT 1 does note that some credence should be paid to whether there is a single or multiple supply for VAT purposes. As the supply is a single supply for VAT it should be treated in accordance with that for IPT purposes.

Thus IPT will be charged on the dash cam and the base premium to the amount of £560.

IPT is charged on motor insurance at the standard rate provided the insurer does not provide or is connected to a provider of motor cars for sale or hire.

IPT will be charged at 12% inclusive on £560 so £60 of IPT will be due from Montinz for each policy.

Montinz is providing refunds on the policy based on certain behaviour and this will count as a reduction in the premium.

Montinz will therefore be able to include a credit in its IPT return for the refund of the premium. This means a refund of £55 will be provided and Montinz can claim a refund of £5.89 of IPT for each refund.



Montinz should ensure to keep good records of all the refunds provided. The tax point for the refund will be when it is provided to the customer given the normal tax point scheme is in operation.

IPT is chargeable on taxable insurance contracts. A contract is taxable for IPT purposes where it has a risk located in the UK.

The Isle of Man is not in the UK for tax purposes and as such if the risk is located in the Isle of man then the policy will not be subject to UK IPT but may be subject to local IPT regimes.

When determining hte location of risk for car insurance we look to where the vehicle is registered. Montinz will therefore need to verify this and keep detailed records of this for each policy entered into to provide evidence for the exemption.

The insurance policy taken out by Montinz on the dash cams will be subject to the standard rate of IPT. This is not a re-insurance policy as the drivers do not themeslves insure the dash cams but they form part of the supply.

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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

### **Liability of supplies**

The purchase of the 4 new acres will be subject to VAT to the amount of £40,000.

This VAT will only be available for recovery if Pryce is VAT registered and intends to make taxable supplies with the land.

The land is not in the capital goods scheme as total VAT exclusive spend is under £250,000.

This means that Pryce does not have to immediately VAT register and could VAT register at a later point and recover the VAT on the basis the land is still on hand at the time of registration.

Pryce would then be able to recover at least a portion of the land on the basis he is making taxable use of it in licences to occupy the land to holiday campers.

### **Pitches for tents**

The pitch for a tenant is a licence to occupy however, if the camping site is not for permanent camping pitches but for holiday pitches then it is subject to the standard rate of VAT where Pryce is registered for VAT.

### **Sale of animal products**

The sale of animal products such as eggs and meat will be zero rated and will be included as taxable supplies that contribute to Pryce exceeding the VAT registration threshold.

The meat provided to himself would be a deemed supply once Pryce is VAT registered but as this is zero rated and deemed supply of himself has no impact.

The use of the meat purely for his own family would not be a business activity but the sales of hte meet to external campers would consittute a business activity as there would be a supply made for a consideration. arguably it does not pass the second stage of the wakefield College test as it is not for the purpose of making a profit but only to break even however, as the cattle have a secondary use to attract visitors this would be considered part of his business.

Moreover, as the Alpacas and sheep products are also being used for other profitable activities this will all form part of a wider farming business.

The sale of wool to campers will be taxbale and subject to the standard rate when registered for VAT.

The sale of childrens hats and jumpers will be taxable and subject to the zero rate once registered for VAT.

The fruit picked will itself be zero rated but hte supply of transport to and from the fruit picking will be standard rated as the trailer does not sit passangers in exceed of 10.

### **VAT registration requirement?**

Pryce must register if his taxable income exceeds £85,000 but he can also choose to voluntarily register at an earlier date. It would be advised to at least register within the 4 years of purchasing hte land as this will allow for VAT to be recovered on the land purchase as goods on hand at registration.

Pryce does not have to opt to tax the land in order to reclaim the VAT as it is used for taxable business activities. The onward sale to the Developer will be exempt but this may be preferred by hte developer as they are building residential accomodation

As a farmer, Pryce could also consider the use of the farmers flat rate scheme.

Pryce would still be required to register for VAT if his non-farming activityies exceeded the VAT registration threshold i.e sale of childrens clothes and the provision of camping areas.

The farmers scheme allows for a set amount of VAT to be levied on supplies and kept by the farmer (4%). This could provide a simplification for Pryce and prevent the requirement to register as a result of his business activites.

the Bulk of Pryce's other supplies however are zero rated and thus it could in fact be beneficial to register if all supplies exceeded the threshold.

Gernally, if the bulk of income comes from the camping pithces then Pryce should avoid registration until the £85,000 threshold is breached. He could also consider incorporating the company to reset the threshold but this may have SDLT and direct tax implications.

### **SDLT**

Four acres of land are to be pruchased at £60,000 per acre so total land to be purchased is valued at £240,000.

I am assuming that the value of £60,000 is VAT inclusive and there is £40,000 of VAT charged by the farmer to Pryce for the purchase of the land.

SDLT is VAT inclsuive so it will include the VAT charged on the land.

SDLT is charged on money or money worth and will also be charged on contingent or uncertain consideration.

The contract states that 20% will be due and this will also be subject to VAT in the event that Pryce does sell on the land.

This means that the land will be subject to a further consideration to the amount of  $4 \times 0.2 \times 50 \times 1.2 = £48,000$ .

Pryce will be required to submit an SDLT return within 14 days of the completion or substantial completion if earlier of the transaction.

The return will be for the full value unless Pryce takes up the option to defer payment of the contingent consideration until the event takes place.

As the land is to be sold in 10 years if at all this will be available as it over 6 months and will reduce the SDLT bill.

SDLT will be payable with interest and must be paid within 30 days of the contingenetn consideration becoming payable to the farmer.

The SDLT will be calculated as follows and will be subject to the non-resdiential rates as it is not containing any dwellings or builidngs capable of being treated as such:

	Base	Contingent if separate	Total
0% for first 150k			
2% for next ,000	£1,800	£200	
5% for final 38k	0	£1,900	
Total	£1,800	£2,100	£4,900

It would be advisable to defer the transaction as this leads to a considerable SDLT saving in the short term.