

CIOT - ATT-CTA

Paper: **CTA Awareness**

Part/Module: **Module A**

Answer-to-Question-_1_

1)

Month	Standard rated £	Zero rated £
31 December 2020	3,000	500
31 January 2021	11,000	500
28 February 2021	29,000	500
31 March 2021	18,000	500
30 April 2021	<u>18,000</u>	<u>500</u>
Total taxable supplies	79,000	2,500

The VAT threshold is £85,000 for a 12 months period. Since the taxable supplies of Pirrer Ltd is only £81,500, it does not have breached the threshold by 30 April 2021.

2) If a person has breached registration threshold, then the trader must notify HMRC no later than 30 days from the end of the month in which threshold limit is breached.

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

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

Answer-to-Question- 2_

Input tax is clawed back on goods that are given away by making an output tax charge on the replacement cost of such goods.

These rules will not apply unless the donor is entitled to input tax recovery on the goods.

However, even where input tax is recovered, the gift may still be exempt from this legislation. There are two exemptions.

The first exemption is where there is a gift of goods made in the course or furtherance of the business where the cost to the donor is not more than £50 (excluding VAT). No output tax will be due on a series of business gifts provided the total cost of gifts made to the same person does not exceed £50 in any 12 month period. If £50 is exceeded VAT will be due on all the gifts made in the previous 12 months.

The other situation where the rules do not apply is where there is a gift to any person of a sample of any goods.

A sample is defined as a specimen of a product which is intended to promote the sales of that product and which allows the characteristics and qualities of that product to be assessed without resulting in final consumption, other than where final consumption is inherent in such promotional transactions.

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

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

Answer-to-Question-_3_

1) The tax point for £4,000 would be 12 May.

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

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

Answer-to-Question- _4_

	£
Team building event (2400*20%)	480
Repairs to car (400*20%)	80
Lease charges on a car (300*20%*50%)	<u>30</u>
	590

The amount of input VAT that the company may recover is £590.

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

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

Answer-to-Question-_5_

The Input VAT directly attributable to taxable supplies of £3,800 can be claimed by the Edsme Ltd.

	Total £	Taxable £	Exempt £
<u>Inputs:</u>			
Direct taxable	3,800	3,800	
Direct exempt	1,400		1,400
Residual	<u>600</u>	<u>504</u>	<u>96</u>
	5,800	4,304	1,496

Fraction:

Taxable supplies/Total supplies * 100
(140,000/140,000 + 28,500) * 100 = 83.1% (rounded up to 84%)

84% * 600 = £504

The direct taxable input tax ie the input tax relating directly to the taxable sales, was £3,800. £3,800 goes into the taxable column.

The direct exempt input tax was £1,400. £1,400 goes into the exempt column.

The residual is £600. This is the amount which must be apportioned between taxable and exempt supplies. This is done using the standard method. The residual input tax which relates to taxable sales as per the fraction amounts to £504. The balance of residual input tax is exempt, ie £96.

The total figures for the quarter are therefore £5,800 of total input tax, £4,304 of taxable input tax and £1,496 of exempt input tax. The trader will be able to claim £4,304 of input tax.

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

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

Answer-to-Question- 6_

VAT under normal scheme

	£
Output tax (7,200 * 20/120)	1,200
Input tax (3,000 * 20/120)	<u>(500)</u>
VAT due to HMRC	700

VAT under Flat rate scheme

	£
Flat rate VAT @ 10%	720
Computer (2400*20/120)	<u>(400)</u>
VAT due to HMRC	320

Nina's savings for March 2021 from joining the flat rate scheme is £380 (700-320)

Since Nina is in first year of VAT registrations, she will get a further reduction of 1% off the normal flat rate percentages.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question-_7_

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question- 8_

1) The information required from Riley in order to determine if the transfer of a going concern provisions will apply with regard to transfer is as follows:

- The assets are used by Riley in carrying on the same kind of business.
- The transferor is registerd for VAT, the transferee is already or becomes so as a result of the transfer.
- There are no significant breaks in trading.
- There won't be any consecutive transfers of the business.

2) If the Riley applies for the new VAT registration number then Nathan will be responsible for the VAT affairs of the business for the period when it was carried on by Nathan.

However, if Riley decides to continue the VAT registration of the previous owner ie Nathan then she will take on the responsibility for the past VAT history of the business.

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9_

1) Alepp Ltd will form a VAT group with Elcair Ltd since it is under common control of Lucinda.

Deast GmbH cannot form a VAT group with Elcair Ltd since one of the conditions for group VAT registration is that company must be established in the UK.

Cotarr Ltd will also not form a VAT group with Elcair Ltd since it is not under control of the company. For having the there should be holding of majority of the voting rights (ie more than 50%).

2) The advantages for the companies of a VAT group registration are-

- It simplifies accounting.
- It centralises the group's affairs and reduces compliance burden (one return per group)
- Supplies between group members are disregarded
- Exempt companies (for example) can not usually VAT register but they can if they are included within a VAT group registration.

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question-_10_

1) Assessments must be made to the HMRC officer's best judgement. They must be made by the later of

- two years after the end of the prescribed accounting period

or

- one year after evidence justifying the raising of an assessment comes to light.

Hence the assessment was raised within the relevant time limits.

2) Since HMRC have accepted that the error was a careless error on the part of Bunamon Ltd., the maximum penalty which can be charged by HMRC is 30% of potential lost revenue. The minimum penalty for careless action can also be 0% provided there is unprompted disclosure. However if there is prompted disclosure, the minimum penalty would be 15% of potential lost revenue.

A penalty for careless action can also be suspended for maximum of two years where HMRC think that compliance with a condition for suspension would help the taxpayer avoid further penalties for careless inaccuracy.

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question-_11_

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

Answer-to-Question- _12_

1)

	£	
125,000 @ 0%	0	
<u>125,000</u> @ 2%	2,500	
250,000		
<u>90,000</u> @ 5%	<u>4,500</u>	
340,000	7,000	Total SDLT

2)

	£	
120,000 @ 3%	3,600	Total SDLT

3) No SDLT is due since Molly is a first-time buyer and she will occupy the property as her main residence and value of the property is only £170,000 (this does not exceed the limit of £300,000).

-----ANSWER-12-ABOVE-----
