



The Chartered Tax Adviser Examination

November 2019

Application and Professional Skills

VAT and Other Indirect Taxes

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, 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.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- 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, you may assume that 2018/19 legislation (including rates and allowances) continues to apply for 2019/20 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

You are a tax manager in the London office of Fiscatorum LLP, an international firm of tax advisers. Your tax partner, Minerva Morris, has received an email from Phil Kappa, a partner in the firm's US office, who seeks advice on certain UK tax issues for one of his clients, Etioli Corp Inc.

Minerva has asked you to review Phil Kappa's email and prepare a draft report on the issues raised which he can include in his advice to Etioli Corp Inc.

The following exhibits are provided to assist you:

EXHIBIT A: Email dated 2 November 2019 from Phil Kappa to Minerva Morris

EXHIBIT B: Email dated 1 November 2019 from Ed Lerner, Finance Director at Etioli Corp Inc, to Phil Kappa

EXHIBIT C: Letter dated 24 October 2019 from Propmax plc to Bernie Capaldi

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report, for review by Minerva Morris, advising on the UK tax implications of Ed Lerner's proposals for expanding their business into the UK.

Continued

Continuation

EXHIBIT A

Email dated 2 November 2019 from Phil Kappa to Minerva Morris

From: pkappa@fiscatorium.com
To: m.morris@fiscatorium.com
Subject: Etioli Corp Inc
Date: November 2, 2019

Hi Minerva

I need some help with a good client of mine, Etioli Corp Inc. They have built up great conference and distance-teaching businesses in the environmental sector here in the US and are now looking to enter the UK market.

Attached is an email from Ed Lerner, Finance Director (**EXHIBIT B**), which gives the background to their thinking. This raises a number of UK tax concerns (corporate and value added taxes), not least on the optimum structure to be set up, the treatment of financing and profit extraction, and use of relevant tax reliefs.

I am also attaching a copy letter to my client from Propmax plc (**EXHIBIT C**), a UK property company, which relates to the acquisition, fitting-out and possible sub-letting, of office premises for the new venture.

I would ask you therefore to prepare a report on the issues raised, with your recommendations, which I can include in my advice to Etioli Corp Inc.

I look forward to reading it!

As ever

Phil

Philip Kappa
Partner

EXHIBIT B

Email dated 1 November 2019 from Ed Lerner, Finance Director at Etioli Corp Inc, to Phil Kappa

From: edwardalerner@etioli.us
To: pkappa@fiscatorium.com
Subject: Investing in the UK
Date: November 1, 2019

Phil

We had a great year and my Board are now looking to expand our business offerings into the UK.

As you know, Etioli Corp Inc is the group holding company which provides management services to its two subsidiaries. These subsidiaries make distinct offerings to customers and, over the years, each has developed the necessary skill sets. Etioli Green Inc provides conferences on environmental issues and Etioli Red Inc provides distance-teaching courses for individuals seeking to obtain the "RED", namely the Rescuing the Environment Diploma awarded by Protecting the Planet (a US Agency based in Washington, DC).

Continued

Continuation

We believe there is demand in the UK for both these service-offerings and, possibly, throughout Europe. We see the way forward in three phases:

- 1) Initially, a small team, under the leadership of Bernie Capaldi, our Vice-President, will be seconded to London. Bernie owns an apartment there and the other team members will be put up in a hotel where they can all meet for discussions. The team will be tasked with researching the UK market and, if it looks viable, will look to developing suitable conference programmes. This is likely to take up to three months. They will incur costs on hotel, travel and the fees of external consultants.
- 2) If all goes according to plan, we will then launch a UK conference business. This will comprise putting together, advertising and running one-day conferences (initially in London and, later, in Dublin also). Our customers will be UK corporates and some public bodies. We plan to charge a delegate fee of around £750, to include attendance, conference pack and refreshments during breaks. Delegates will make their own arrangements for travel and accommodation. We will incur expenditure on such items as staff, information technology, advertising, venue costs, refreshments, insurance and speaker fees.
- 3) The third phase is dependent on the RED becoming fully accredited throughout Europe. We confidently expect this to happen by the end of 2021. Assuming it does, we will launch a distance-teaching business in the UK which we plan to resource and run as a centre of excellence servicing the European market. Our customers will be private individuals, resident in the UK or elsewhere in Europe. The courses will be sold as a package for an inclusive course fee of around £1,500. The courses will comprise webinars, interactive sessions and assessments delivered on-line. Customers will be able to print off material and, at the start of their course, we will mail them a printed manual.

Etioli Red Inc is currently licensed by Protecting the Planet to use certain intellectual property rights in the US, on payment of a royalty. I am advised that use of these IP rights for customers outside of the US will require a further license from Protecting the Planet (and payment of a further royalty) and I am keen to know if this would give rise to any tax concerns.

If Phase 2 proceeds, we expect to break even in the first full year and move into profit in later years. Phase 3 is more speculative and may involve losses, at least initially.

We have not yet decided how the new ventures should be structured. Naturally, we are concerned to limit our exposure to UK taxes as far as possible and minimise commercial risk. We would like to have your advice and recommendations on all these issues.

We are also considering suitable premises in London. Bernie has been in discussion with Propmax plc about purchasing a property which would suit us. It is close to Bernie's London apartment! I am sending, as an attachment (**EXHIBIT C**), a letter which explains where we are at. The new building would be too big for us initially, but it seems a great investment and the prospect of earning income from letting surplus space during Phases 1 and 2 is attractive to us. However, I am not clear why they are suggesting we pay more for the shares, how that saves us tax, and whether we should go down this route.

I hope you have enough to go on and I look forward to getting your advice and recommendations.

Best regards

Ed
Edward A Lerner
Finance Director
Etioli Corp Inc

Continued

Attachment: Letter dated October 24, 2019 from Propmax plc

Continuation

EXHIBIT C

Letter dated 24 October 2019 from Propmax plc to Bernie Capaldi

Mr B Capaldi
Etioli Corp Inc
200 Charles Boulevard
Boston 201166
Massachusetts
USA

Propmax plc
1 Buckmaster Gate
London
W2A OBR

24 October 2019

Dear Mr Capaldi

11 Aegis Court, Queen Street, Hammersmith, London, W6 OAZ ("the Property")

It was a pleasure to meet you in London last week and to discuss the Property, which is scheduled for completion towards the end of the year.

You will see from the specification I gave you that the office accommodation is on two floors around a central atrium (approximately 1,500 sq. ft. on each floor, excluding the common parts). You indicated that initially your company would wish to occupy one floor and to let the other floor. For your information, I understand that the current annual market rental for office space in this locality is around £60 per sq. ft.

As discussed, the asking price for the freehold is £3 million, subject to contract. Alternatively, as the Property is currently held in one of our special purpose companies, Propmax (Aegis Court) Ltd, you could purchase that company instead which could give you a tax saving. The asking price for the entire share capital would be £3.1 million, subject to contract.

The Property will be completed to our usual high standard, but excluding partitioning and decoration, which will be for the buyer to arrange separately with its own contractors.

I hope the Property is of interest to you.

I look forward to your early reply and to doing business with you, as considerable interest has already been shown in the Property.

Yours sincerely

Desmond Sharkey
Sales Executive

Continued

Continuation

EXHIBIT D

Pre-seen information

Client Name

Etioli Corp Inc

Address

200 Charles Boulevard
Boston 201166
Massachusetts
USA

Background

It was incorporated in the state of Massachusetts in the US on 1 April 2005 and is tax resident there. It is a private company with two wholly-owned subsidiaries (Etioli Green Inc and Etioli Red Inc). Etioli Corp Inc provides active management of those subsidiaries, including making loans and carrying out treasury, administrative and other headquarters functions. The group employs 150 staff, all of whom work in the US.

Share Capital

1,000 ordinary shares of \$10 each

Directors/Shareholders

<u>Name</u>	<u>Position</u>	<u>Shareholding</u>
John Capaldi	President	400
Bernie Capaldi	Vice-President	300
Martha Capaldi	Director	100
Jason O'Donohue	Director/Secretary	100
Edward Lerner	Group Finance Director	100

Etioli Green Inc

Etioli Green Inc was incorporated in the state of Massachusetts in the US on 1 April 2005 and is tax resident there. It has 1,000 ordinary shares of \$1 each in issue. The company provides conferences which are held throughout the US on environmental issues for which it charges delegate fees. The directors are Jason O'Donohue, Peter Bright and Edward Lerner.

Etioli Red Inc

Etioli Red Inc was incorporated in the state of Massachusetts in the US on 1 April 2010 and is tax resident there. It has 1,000 ordinary shares of \$1 each in issue. The company provides courses for persons in the US seeking environmental qualifications for which it charges course fees. The directors are Jason O'Donohue, Edward Lerner and Professor Albert Switzer.

Continued

Continuation

Summarised Accounts for the Etioli Group

Consolidated Profit & Loss Account for the year ended 31 March 2019

	<u>US\$ million</u>	<u>US\$ million</u>
Sales		48
Cost of sales		<u>(27)</u>
Gross profit		21
Other income		<u>1</u>
		22
Expenditure:		
Directors remuneration	7	
Employment costs	3	
Other administrative costs	<u>1</u>	
		<u>(11)</u>
Net profit		<u>11</u>

The Group Balance Sheet, as at 31 March 2019, showed net assets of US\$ 14.4 million.