

The Chartered Institute of Taxation

Awareness

Module A: VAT including Stamp Taxes

November 2023

Suggested solutions

Answer 1

- 1)
Taxable supplies include standard-rated and zero-rated supplies, but not exempt supplies. 1
- Meldon breached the VAT threshold of £85,000 on 31 March 2023, as her cumulative taxable supplies were £96,000 ((6 x £10,000) + (3 x £12,000)). 1
- Meldon should have been registered with effect from 1 May 2023. 1
- 2)
- | | £ | |
|--|-----------------|---|
| Standard-rated sales | | |
| 1 May 2023 to 30 June 2023 (£10,000 x 2) | <u>20,000</u> | 1 |
| Output tax x 1/6 | <u>£3333.33</u> | 1 |

Answer 2

- 1)
If the supplier does not wish to issue a credit note, they must include the terms of the prompt payment discount on the invoice, including the time by which the discounted price must be paid. 1
- The invoice should include the discounted price, the VAT due on the discounted amount, and the total due if the customer takes advantage of the discount. 1
- 2)
- | | £ | |
|---|---------------|---|
| <u>Output VAT</u> | | |
| July and August sales (£10,000 + £11,000 = £21,000 x 20%) | 4,200 | 1 |
| September sales – no discount (£12,000 x 50% x 20%) | 1,200 | 1 |
| September discounted sales (£12,000 x 50% x 90% x 20%) | <u>1,080</u> | 1 |
| | <u>£6,480</u> | |

Answer 3

- The basic tax point is the date the service is performed, 20 July 2023. 1
- As the invoice was issued within 14 days of the basic tax point, the actual tax point is the date the invoice was issued, 31 July 2023. 1
- The basic tax point of the machinery purchase is the date of despatch, 1 September 2023. 1
- As the deposit was paid before the basic tax point, the basic tax point is overridden and the actual tax point for the deposit is the date the deposit was paid, 12 August 2023. 1
- As an invoice for the balance of £80,000 was issued within 14 days of the basic tax point; the date of the invoice is the actual tax point for the balance, 11 September 2023. 1
- The trader may waive the 14-day rule and keep the basic tax point if they wish. 1

Max 5 marks

Answer 4

| | £ | |
|--|-------------|---|
| Laptop: The laptop was purchased prior to trading, however as it is still owned by Aisha and used in the business, she can reclaim pre-registration input VAT in her first VAT return. £1,000 x 20% | 200 | 1 |
| Advertising services: Services in the six months prior to VAT registration can be recovered in the first VAT return. (Jan 23- Jun 23) | | 1 |
| The advertising services for the quarter ended 30 September 2023 can also be claimed. £100 x 20% x 9 | 180 | 1 |
| Car: The input VAT on the car is blocked since there is personal use of the car | 0 | 1 |
| However, the input VAT on the repairs is not blocked. £2,000 x 1/6 | 333 | 1 |
| Input VAT | <u>£713</u> | |

Answer 5

- 1)
Aydin will be able to join the cash accounting scheme. There are reasonable grounds for believing that his taxable supplies for the next 12 months will not exceed £1.35 million, based on his current profits. 1
Although Aydin was late submitting his VAT return and payment for the quarter ended 30 June 2023, this is now up to date. 1
If Aydin joins the cash accounting scheme, he will still be able to join the annual accounting scheme, but he will not be able to join the flat rate scheme. 1
- 2)
Bad debt relief is available where the output tax has been paid to HMRC, provided the debt has been written off in the accounts and the debt is over six months old.
Aydin can claim bad debt relief on the outstanding debt from Laneek Ltd as it is over six months old. £1,000 x 20% = £200 1
Aydin cannot claim bad debt relief on the outstanding debt from Kaliib Ltd in the quarter ended 30 September 2023, as it has not yet been outstanding for six months. 1

Answer 6

- 1)
A simplified VAT invoice can be issued where the supply does not exceed £250. 1
The following are required on a normal VAT invoice, but not on a simplified VAT invoice:
A sequential identifying invoice number
The date the invoice is being issued
The total amount being charged net of VAT
Customer's name and address
The rate of any discount offered
The unit price

1 mark each, maximum 3
- 2)
Koa must keep his accounting records and invoices for a minimum of six years. 1

Answer 7

Test 1:

Total input VAT \leq £625 per month on average

$$£7,850 / 3 = £2,617$$

1

AND

Exempt supplies \leq 50% of total supplies

$$\text{Total supplies} = £27,000 + £8,000 = £35,000$$

$$£8,000 / £35,000 = 23\%$$

Therefore test 1 failed

1

Test 2:

Total input VAT less that directly attributable to taxable supplies \leq £625 per month on average

$$£7,850 - £6,700 = £1,150 / 3 = £383$$

1

AND

Exempt supplies \leq 50% of total supplies

$$£8,000 / £35,000 = 23\%$$

1

Therefore Test 2 passed and all the input VAT of £7,850 is recoverable.

1

Answer 8

1)

Lught Ltd, Outt Ltd, and Terrac Ltd can form a group for VAT purposes, as Leroy controls all of them and they are all established in the UK. Gedeem Ltd cannot be part of the group as Leroy does not control the company.

1

Leroy can also be part of the group as he is a relevant person who controls the UK companies.

1

2)

Advantages:

The group is treated as a single entity registered for VAT therefore only one VAT return is required, so VAT accounting is simpler.

VAT affairs are centralised which can help with compliance

Supplies between group members are disregarded

It is possible to include an exempt company, which otherwise would not be able to be VAT registered.

1 mark each, maximum 3

Answer 9

An option to tax building 1 will not affect the supply as the building is used as dwellings. The rent from the individuals would remain exempt. 1

Mina will not be able to recover the VAT on the repairs to building 1. 1

An option to tax building 2 would mean that Mina will need to charge VAT at the standard rate on rent payable, and she will be able to reclaim the VAT on the repairs to the building. 1

The VAT registered businesses will be no worse off, as they will be able to reclaim the VAT on the rent. 1

However, for the businesses which are not VAT registered, unless the leases were specifically VAT inclusive at the time they were entered into, this will be a 20% increase in rent, which they cannot recover, and may not be able to afford. 1

Answer 10

| | £ | £ | |
|---|------------|----------------|---|
| Output VAT: | | | |
| Sales to UK customers (£90,000 x 20%) | | 18,000 | 1 |
| Sales to overseas customers – zero-rated (£30,000 x 0%) | | 0 | 1 |
| Fuel scale charge (£507 x 1/6) | | <u>85</u> | 1 |
| | | 18,085 | |
| Input VAT: | | | |
| Standard-rated purchases in the UK (£25,000 x 20%) | 5,000 | | 1 |
| Fuel (£600 x 1/6) | <u>100</u> | | 1 |
| | | <u>(5,100)</u> | |
| | | <u>£12,985</u> | |

Answer 11

| Acquisition | Stamp duty payable | Reason/calculation | |
|--------------|--------------------|---|-----|
| Valliei Ltd | £nil | New issue of shares | 1 |
| Pachecoo Ltd | £nil | Consideration is not more than £1,000 | 1 |
| Murcail Ltd | £35 | £6,600 x 0.5% = £33 round to nearest £5 = £35 | 1+1 |

The stamp duty on the acquisition of the Murcail Ltd shares should be paid at the same time the stock transfer form is sent to HMRC for stamping (ie within 30 days of execution). 1

Answer 12

The acquisition by Cluub Ltd from Goolf Ltd takes place between members of a 75% group, therefore this would have been exempt from stamp duty land tax (SDLT) in 2021. 1

The acquisition by Boogie Ltd, an unconnected company, from Cluub Ltd will result in SDLT payable of:

| | | £ | |
|-----------------------|----|----------------|---|
| £0 - £150,000 | 0% | 0 | 1 |
| £150,000 - £250,000 | 2% | 2,000 | 1 |
| £250,000 - £1,300,000 | 5% | <u>52,500</u> | 1 |
| | | <u>£54,500</u> | |

The SDLT will be payable 14 days after completion of the sale. 1

Alternative answer Scottish LBTT:

The acquisition by Cluub Ltd from Goolf Ltd takes place between members of a 75% group, therefore this would have been exempt from land and buildings transaction tax (LBTT) in 2021. 1

The acquisition by Boogie Ltd, an unconnected company, from Cluub Ltd will result in LBTT payable of:

| | | £ | |
|-----------------------|----|----------------|---|
| £0 - £150,000 | 0% | 0 | 1 |
| £150,000 - £250,000 | 1% | 1,000 | 1 |
| £250,000 - £1,300,000 | 5% | <u>52,500</u> | 1 |
| | | <u>£53,500</u> | |

The LBTT will be payable 30 days after completion of the sale. 1