

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Domestic Indirect Taxation

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 indicate this where relevant.
- 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 in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. The Miltoon Group is a religious organisation with several wealthy benefactors. The parent company, Miltoon Ltd, is a VAT registered charity, whose primary aim is to promote worship in the community via its five subsidiary companies, which operate independent places of worship around the country. It does this by buying properties which it lets to its subsidiaries to operate as churches. All the subsidiary companies are separate charities and are not VAT registered.

A wealthy US benefactor, Darwin Johnson III, owns a chain of successful retreats in the US and wishes to expand into the UK with The Miltoon Group as a partner. Consequently, he has set up Starling Retreats Ltd and has gifted 49% of the shares to Miltoon Ltd. It is intended that Starling Retreats Ltd will acquire property for individuals to attend day-time retreats, and short-term stays including the retreat. Tours, which can be added into a retreat package, will be bought in from a local travel company, which will also provide transfers from the airport for those travelling from further afield. Starling Retreats Ltd is not yet VAT registered, and will gift some of its profits to Miltoon Ltd.

A former commercial property has recently been bequeathed to one of the subsidiaries, Miltoon (Birmingham) Ltd. The property seems ideally positioned for Starling Retreats Ltd to deliver its offerings. Miltoon (Birmingham) Ltd agrees the property is far too large for it and will therefore gift the beneficial interest to Miltoon Ltd, provided a small proportion of the floor area can be used by Miltoon (Birmingham) Ltd as a church (around 7% of total floor area). Miltoon (Birmingham) Ltd will also continue to operate its existing church which is across the city from this location.

Miltoon Ltd will enter into a development agreement with external contractors to create an overnight retreat facility at a cost of £7.5 million plus VAT, which will then be leased to Starling Retreats Ltd at a rent £400,000+VAT per annum. Miltoon Ltd intends to opt to tax the site, to allow input tax recovery, but Starling Retreats Ltd does not intend to opt to tax the site.

It has not yet been decided whether Miltoon Ltd will let the 7% area directly to Miltoon (Birmingham) Ltd at a peppercorn rental; or let the whole property to Starling Retreats Ltd which would then grant the peppercorn sub-lease to Miltoon (Birmingham) Ltd.

Requirement:

Discuss the VAT treatment of the supplies to be made by Starling Retreats Ltd and also the VAT implications of the building project. (20)

2. Redcoast NHS Trust operates a hospital site in England. It is VAT registered. It obtains most of its income through centralised government funding to cover the provision of free public healthcare, but additionally, it offers a wide range of private healthcare services. Redcoast NHS Trust's Board has been discussing three initiatives to generate more income for the organisation.

Coffee Shop

The Trust is assessing the merits of opening a new coffee shop at the hospital site. It is considering whether to operate the coffee shop in-house or whether to bring in a third-party to operate it. It is currently costing up the in-house provision to compare against an alternative offer it has received for third-party operation by a coffee shop provider. The offer consists of a combined rental payment of £2,000 per month with an additional annual percentage of sales revenue (5%) payment to the Trust. Discussions are on-going as to whether the Trust or the occupier might be better placed to fit out the new coffee shop area.

Car Parking

The Trust is proposing a car park expansion to accommodate more visitors and private healthcare patients on-site. The car park expansion construction work will cost £320,000 plus VAT. Patients, staff and visitors will be required to pay an hourly tariff for parking. On completion of the work, staff will be provided with a free parking permit for six months, to encourage them to use the facility. Customers paying for private healthcare packages will also be able to pre-book parking on-line at the same time if required, for an additional fee.

Renal Department

The Trust is considering outsourcing the entire operation of the renal department as an operated healthcare facility, including the medical consumables. Section 41 VAT Act 1994 allows for VAT recovery on outsourced services where the facility is used for non-business purposes. Whilst supplies of goods are not usually eligible for recovery under the same section of the VAT Act, the procurement department has suggested that outsourcing the whole department may reduce the VAT cost of running the department overall.

Requirement:

Discuss, with reference to caselaw, the VAT implications of the initiatives proposed. (15)

3. Mini-T Ltd is a popular retailer with multiple shops in the south of England. It sells matching clothing and pyjamas for adults and children, with turnover exceeding £1 million in the quarter ended March 2024.

Mini-T Ltd currently operates under the Direct Calculation 2 Retail Scheme but is considering whether it should change to the Apportionment Scheme.

The daily gross takings, expected selling price and opening/closing stock for the period were:

<u>Period</u>	<u>Daily Gross Takings</u>	<u>Expected Selling Price of zero-rated purchases</u>	<u>Expected Selling Price of standard rated purchases</u>
	£	£	£
30 June 2022	290,000	110,000	204,000
30 September 2022	284,000	99,000	176,000
31 December 2022	169,000	58,000	119,000
31 March 2023	203,000	65,000	132,000
30 June 2023	232,000	52,000	170,000
30 September 2023 (1)	350,000	124,000	220,000
31 December 2023 (2)	254,000	106,000	154,000
31 March 2024 (3)	264,000	77,000	184,000

<u>Period</u>	<u>Expected Selling Price of zero-rated purchases</u>	<u>Expected Selling Price of standard rated purchases</u>
	£	£
2023/24 Opening stock	35,000	90,000
2023/24 Closing stock	32,000	85,000

Notes

- 1) Mini-T Ltd discovered that an employee had stolen £850 of cash in August 2023. The employee was dismissed but the cash was never recovered.
- 2) Although all items can be purchased independently, Mini-T Ltd ran a promotion in December 2023 whereby customers were able to get a free children's item when purchasing an adult item. The daily gross takings and Expected Selling Price of standard rated purchases includes £23,000 relating to the promotional offer; and the Expected Selling Price of zero-rated purchases includes £19,000 of free children's items given away.
- 3) In February 2024, the flat above one of Mini-T Ltd's shops had a significant bathroom leak. Unfortunately, Mini-T Ltd's stock room is located underneath the bathroom and £2,500 of adult stock, and £1,000 of children's stock suffered water damage and had to be disposed of.

Requirements:

- 1) **Calculate with explanations, the VAT due under both the Direct Calculation 2 and Apportionment schemes for each of the four quarters to 31 March 2024, including any adjustments required at the end of the year.** (12)
- 2) **Explain the rules around changing schemes and the treatment of stolen cash under the retail schemes.** (3)

Total (15)

4. Candy is a UK based VAT registered beauty therapist. She has just signed a five-year lease for a new salon, after being a mobile therapist for three years. The salon has one large room that she will use for her customers. There is also a kitchen, toilet and a smaller room. The landlord (KZ37 Ltd) will invoice Candy for rent, electricity, three parking spaces, and buildings insurance. Candy has no choice on the services provided. The electricity will be itemised separately although it is a flat rate charge for each month, subject to annual reviews under the lease. All other costs will be invoiced as a single sum under the heading 'rent and associated charges'. KZ37 Ltd has opted to tax the building. Candy estimates her therapist turnover for the next 12 months to be £80,000.

Candy is considering two options for the smaller room:

- 1) Renting it to Andi, a non-VAT registered dog groomer for £7,000 per annum. Andi would have sole use of the room and a parking space, with no access to other facilities.
- 2) Renting it to Jane, a fully taxable VAT registered holistic healer for £8,000 per annum. Jane would occupy the smaller room but crucially wants to use the other facilities in the salon, including the kitchen, toilet, phone, and advertising on Candy's social media. Candy thinks she can charge more for this second option as she will generate extra business for Jane.

Candy wants to deregister for VAT to keep her prices competitive. She has stock of false lashes, and other consumables, which cost £300 but could be sold for £100. She has gel machines, and massage equipment, including a couch, which cost £4,300 in total and have a net book value of £200. Their market value is £1,200. She owns a van which cost £8,000, from a dealership, on which she customised the interior for £1,200. Her niece, who owns a VAT registered business, might buy the van for £3,400, although on the open market it would sell for £4,400. Candy recovered VAT on the purchase of all items where applicable. All amounts are shown exclusive of any applicable VAT.

Before opening the salon, Candy was on holiday in Tenerife and received an email that her annual public liability insurance needed to be renewed. The quote was too expensive, so Candy searched for a cheaper policy and took it out before arriving back in the UK. The premium was £2,000.

Requirements:

- 1) **Explain the VAT issues for Candy in relation to the new salon.** (17)
- 2) **Explain the Insurance Premium Tax implications for all parties.** (3)

Total (20)

5. Motinz Ltd is a UK based online house insurance company and is looking at a new line of business. It is VAT registered and partially exempt. It will supply fully comprehensive, and third party fire and theft, 12-month motor car insurance policies.

In addition to the cost of the insurance, drivers will be able to pay an extra £10 for the loan of a dash cam, which they can put in their car. When sold separately by retailers, the dash cams cost £150. The dash cam will have integrated safe driving capabilities. At the end of the 12 months insured period, the insured can either renew the policy and continue to use the dash cam, or if they change providers they can pay a fee of £15 to keep it. As it will be worth approximately £100 at this point it is expected that all drivers who do not renew their policy will pay the fee. The driver can continue to use it or sell it second-hand. If the driver does not want to keep the dash cam they can post it back to Motinz Ltd. The dash cams will not be available to be purchased without an insurance policy.

The integrated safe driving capabilities will mean that data is derived about the driver's acceleration, braking and speed, which feeds back to the insurance company and the driver can also access this on an App on their phone. If set 'safe driving' parameters are met, a refund of part of the insurance premium will be given to the driver. The refund will be given in two parts, the first one, six months into the yearly policy, to encourage drivers to continue to drive safely, and the second one will be at the end of the annual policy.

A typical insurance premium will be £550. The dash cam will cost Motinz Ltd £75 and refunds of typically 10% can be obtained by meeting the safe driving parameters. Some of Motinz Ltd's customers are based in the Isle of Man, but they will not get the option of the dash cam nor safe driving refund.

Motinz Ltd will take out its own insurance in case dash cams are stolen or damaged etc. during the 12 month loan period.

Requirements:

- 1) **Explain the VAT issues in relation to the new line of business.** (12)
- 2) **Explain the application of Insurance Premium Tax to the car insurance policies and to the dash cam insurance.** (3)

Total (15)

6. Pryce bought a farmhouse six years ago. He is about to purchase four acres of adjacent grazing land to run a camping site and keep livestock. Approximately two acres will be used for the campsite and a pitch will cost £20 a night. Of the remaining two acres, one acre will be used to keep breeding sheep, and the other acre will have alpacas, chickens, ducks and contains an orchard, which is at the furthest end of the four acres.

Pryce will sell eggs and occasionally joints of lamb to campers and local neighbours. He estimates that the sales of lamb might break even but the main reason for breeding the sheep is to keep the meat for himself and his family, and sales will only be made if there is surplus meat. Pryce hopes that the sheep and alpacas will be an extra attraction to the campers who can feed them carrots and apples.

The alpacas' fleece will be spun into balls of wool and will be sold to campers for £2 a ball. Pryce's grandma will make some knitted children's hats and jumpers with some of the excess wool, which Pryce will sell on site.

Pryce has rigged up a quad bike with a trailer so that campers can take a ride down to the orchard and pick fruit. A separate charge will be made for the fruit picked and the ride. The trailer seats six people.

The land will cost £60,000 per acre as it is under the Council's local 5-10 year strategy plan to build more houses. Pryce is hoping to retire in 10 years and sell the land to a developer. The farmer that is selling the land has made an option to tax and has included a clause in the contract with Pryce that if the land is sold within 15 years, Pryce has to pay him additional proceeds equal to 20% above the £60,000 per acre paid.

Pryce is already VAT registered as he runs a consultancy business from the farmhouse and anticipates there will be VAT costs incurred in the new venture.

Requirements:

- 1) **Explain the VAT implications of Pryce's new venture, and how the VAT recovery may be improved.** (11)
- 2) **Explain the Stamp Duty Land Tax payable on the purchase of the land.** (4)

Total (15)