

# **The Chartered Institute of Taxation**

**Awareness**

**Module A: VAT including Stamp Taxes**

**May 2023**

**Suggested solutions**

Answer 1

- 1) Saul is a limited cost trader if his VAT inclusive expenditure on relevant goods is no more than the higher of: 1
- £250 and 1
  - 2% x VAT inclusive turnover of £36,000 = £720. 1
- Relevant goods include stationery (£120) and electricity (£588) = £708, so Saul is a limited cost trader. 1
- 2) VAT payable for the quarter ended 31 March 2023 is 16.5% x £36,000 = £5,940. 1

Answer 2

<b>Output VAT</b>	£	£	
£22,000 x 20%		4,400	1
Fuel scale charge: £296 x 1/6		49	1
Gift of pens (≤ £50 per pen)		0	
Deemed supply: £600 x 1/6		<u>100</u>	1
		4,549	
<b>Input VAT</b>			
Fuel: £(2,250 + 680) x 20%	586		1
Pens: £1,200 x 20%	<u>240</u>		1*
		<u>(826)</u>	
VAT payable		<u><u>£3,723</u></u>	

\* No output VAT charged but input VAT reclaimed.

Answer 3

- 1) An individual carrying on a business can form a VAT group with companies under their control, if that business and those companies have a fixed establishment in the UK (which includes a branch or office with its own staff and equipment). 1+1
- Therefore Howard can form a VAT group with both Hamlynne Ltd and Gustavo S.L 1
- 2) As Howard's sole trader business is making wholly exempt supplies, his inclusion in the group would make the group partially exempt and potentially affect the recovery of input VAT for the group as a whole. 1
- The inclusion of Hamlynne Ltd would have a negative effect on the cashflow of the group as it would lose the benefit of monthly repayments of VAT. 1

\* Credit given for other relevant disadvantages.

Answer 4

- 1) Three interim payments of 25% of the VAT liability for the previous 12 months, so 25% x £34,000 = £8,500. 1
- Due dates:  
31 July 2022 1  
31 October 2022 )1\*  
31 January 2023 )
- Final payment = £38,000 – (3 x £8,500) = £12,500 1
- 2) Due date = 31 May 2023. 1
- \* For the second and third interim payment being 3 and 6 months (respectively) after the first.*

Answer 5

	£	
Car lease: 50% x £1,920	960	1
Meal: The input VAT on entertaining <u>UK customers is not recoverable.</u>	Nil	1
As the staff were acting as hosts, the <u>input VAT on the staff element is not recoverable.</u>	Nil	1
Christmas party: The input VAT on <u>entertaining staff is recoverable</u> (50/100 x £3,100)	1,550	1
The input VAT on <u>entertaining their guests is not recoverable.</u>	Nil	1
	<u>£2,510</u>	

Answer 6

- 1) Shraider Ltd's cumulative taxable turnover at 31 October 2022 was £99,000, so it should have notified HMRC of its liability to register for VAT by 30 November 2022 and VAT registration would have been effective from 1 December 2022. 1
- 2) Output VAT since 1 December 2022 is £(63,000 + 75,000) x 1/6 = £23,000. 1  
Potential lost revenue is £(23,000 – 3,600) = £19,400. 1  
Maximum penalty is 70% x £19,400 = £13,580 1

Answer 7

Total input VAT on the computer = £60,000 x 20%	£12,000	
Sale adjustment in year ended 31 March 2023 (reclaimable from HMRC):		
£12,000/5 x (100% - 75%) x 2	£1,200	1+1+1+1+1

Answer 8

A qualifying TOGC is outside the scope of VAT. Taxable land and buildings are within the TOGC if the buyer, Hyssen Ltd, also exercises the option to tax before the date of completion and confirms that the option will not be disapplied. 1  
1

If this is not done, then the sale of Goodman House will be subject to standard rate VAT which Hyssen Ltd will be unable to recover. 1

If Hyssen Ltd does not exercise the option to tax its supplies will be exempt, therefore it will not charge output VAT on the rent charged to tenants. It will also be unable to recover the input VAT on the cost of the renovations. 1+1

Answer 9

£

**Output VAT**  
Standard rated VAT inclusive purchases = £70,000 x 120% = £84,000

Output VAT:  $\frac{£84,000}{£(84,000 + 21,000)} \times £249,600 \times \frac{1}{6}$  33,280 1+1+1+1

**Input VAT**  
£70,000 x 20% (14,000)  
VAT payable £19,280 1

Answer 10

1) Late filing of VAT returns

A penalty point could be imposed whenever a VAT return is submitted late. 1

A penalty point could therefore be imposed for the each of the first three quarters of the VAT year ended 30 April 2023.

If the VAT return for the quarter ended 30 April 2023 is submitted late, then Babatunde would have a total of 4 penalty points and a penalty of £200 could be imposed. 1+1

2) Late payment of VAT

If the VAT is paid more than 15 days but no more than 30 days late, a penalty of 2% of the outstanding VAT could be imposed. 1

Therefore, the potential penalty for the quarter ended 30 April 2023 is 2% x £6,700 = £134. 1

Answer 11

- |  |      |     |
|--|------|-----|
| 1) SDLT on NPV of rent:<br>$\pounds(240,000 - 150,000) \times 1\%$ | £900 | 1+1 |
| 2) 15 October 2022.  |      | 1   |
| 3) Late filing penalty:  | £100 | 1   |
| Late payment penalty: $5\% \times \pounds1,150$                    | £45  | 1   |

*Alternative answer Scottish LBTT*

- |  |      |     |
|--|------|-----|
| 1) LBTT on NPV of rent:<br>$\pounds(240,000 - 150,000) \times 1\%$ | £900 | 1+1 |
| 2) 31 October 2022.  |      | 1   |
| 3) Late filing penalty:  | £100 | 1   |
| Late payment penalty: $5\% \times \pounds900$                      | £45  | 1   |

Answer 12

- 1) Claiming Multiple Dwellings Relief (MDR) results in SDLT being calculated on the average value of each apartment being  $\pounds1.68 \text{ million} \div 7 = \pounds240,000$

£		£	
125,000	x 3%	3,750	1
115,000	x 5%	5,750	1
<u>£240,000</u>		<u>£9,500</u>	
£9,500	x 7	<u>£66,500</u>	1

- 2) If MDR not claimed, SDLT calculated at non-residential property rates on the total consideration.

£		£	
150,000	x 0%	0	
100,000	x 2%	2,000	1
250,000			
1,430,000	x 5%	71,500	1
<u>£1,680,000</u>		<u>£73,500</u>	

*Alternative answer Scottish LBTT*

- |    |                 |      |                |   |
|----|-----------------|------|----------------|---|
| 1) | £               |      | £              |   |
|    | 145,000         | x 4% | 5,800          | 1 |
|    | 95,000          | x 6% | 5,700          | 1 |
|    | <u>£240,000</u> |      | <u>£11,500</u> |   |
|    | £11,500         | x 7  | <u>£80,500</u> | 1 |

- |    |                   |      |                |   |
|----|-------------------|------|----------------|---|
| 2) | £                 |      | £              |   |
|    | 150,000           | x 0% | 0              |   |
|    | 100,000           | x 1% | 1,000          | 1 |
|    | 250,000           |      |                |   |
|    | 1,430,000         | x 5% | 71,500         | 1 |
|    | <u>£1,680,000</u> |      | <u>£72,500</u> |   |