

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, 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.

- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are Amal Patel, tax manager at Quirer LLP, a firm of Chartered Tax Advisers. You have received a letter from Bernie Krell (**EXHIBIT A**), Chief Executive Officer of ABundle Ltd. ABundle Ltd provides remote gaming (involving casino-type games such as Roulette, Blackjack and Wheel of Fortune) to customers in the UK.

Charlie Krell, Bernie's brother, owns Tagera Ltd, which designs and markets video games. Historically, Tagera Ltd traded profitably. However, such games are now being replaced by newer products and consequently the company has become loss-making. Gabriela, Charlie's wife, is the author of a series of best-selling fantasy novels and is currently VAT-registered as a sole trader. Charlie is in the course of developing a new "virtual reality" product based on her novels. Bernie is in discussion with Charlie about ways in which ABundle Ltd might acquire Tagera Ltd. However, Charlie and his wife wish to retire to Spain.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Bernie Krell

EXHIBIT B: Email to Bernie from Charlie Krell

EXHIBIT C: Financial information regarding Tagera Ltd

EXHIBIT D: Pre-seen information

Requirement:

Prepare a letter to Bernie Krell advising ABundle Ltd on the tax issues raised by the proposals and recommending how best to structure the acquisition.

Continued

EXHIBIT A

Letter from Bernie Krell

Amal Patel
Quirer LLP
Abacus House
Butter Market
Baizely
Wealshire
WE2 3CL

ABundle Ltd
Rake House
Punter's Wharf
Deal Island
Wealshire
WE1A 4CE

30 April 2024

Dear Amal

Targera Ltd: Business acquisition proposals

As discussed on the telephone last week, I spoke with my brother Charlie to discuss proposals for acquiring his business.

As mentioned, Charlie is a talented software designer and graphic artist. Historically, Targera Ltd traded profitably but, due to market changes, a loss of around £100,000 was incurred for the year ended 31 March 2024.

Charlie has come up with an idea for a new product ("Project Z") which he is confident will prove a best-seller. This is in the course of being developed, with an anticipated launch within the next 12 months. However, Charlie wishes to give up running his company and retire with Gabriela to Spain. Given ABundle Ltd's profitability and cashflow position it would be attractive to be able to acquire the company, utilise the tax losses and hopefully benefit from the future profits from Project Z. There is also a potential reclaim of VAT (**EXHIBIT C**).

I am open to other suggestions about how the acquisition might be structured in a way which reduces any tax costs, including the period after the acquisition.

I have not yet discussed with Charlie how he might share in the success of Project Z. My initial thoughts are for some form of consultancy agreement, to include a licence to use Gabriela's characters, but would welcome your views on this.

Charlie has emailed me further details (**EXHIBIT B**), attaching some notes he has prepared on Targera Ltd's financial position (**EXHIBIT C**), and I enclose these for your consideration.

I am sure a lot more information is required (including the input of valuation experts) before we can finalise a deal. However, I am keen to explore this opportunity and progress initial discussions with Charlie as far as possible.

I should be grateful, therefore, if you could let me have your thoughts on any tax issues likely to arise with the acquisition and recommend how best to structure it, including use of Targera Ltd's losses.

I look forward to hearing from you.

Yours sincerely

Bernie

B E Krell
Chief Executive Officer

Continued

EXHIBIT B

Email to Bernie from Charlie Krell

Date: 26 April 2024
From: cjkrell@targera.co.uk
To: bernie@abundle.co.uk
Subject: Sale of business

Hi Bernie

Gabriela and I are thinking of selling the business and moving to Spain. I thought you might like “first refusal”, as it would be nice to keep the business in the family. As I explained, our core product has been the design and licensing of video games. These games are played on equipment such as personal computers, smart phones and gaming consoles. As technology moves on, however, our existing products are proving less popular with the game-playing public. Our customers (the distributors) now want to offer their game-players a more “immersive” experience, for example using virtual reality technology.

I have come up with a brilliant idea, which I am in the course of developing and which I call “Project Z”. It is based on Gabriela’s fantasy novels. The player can choose to be one of a cast of characters and undergo a series of trials and ordeals, including an encounter with a sorcerer, who foretells future moves using a deck of cards. I thought that last bit, especially, might appeal to you, Bernie, given the nature of your business!

I am in the process of finalising the software programme and currently I’m working on the artwork and soundtrack, with an estimated launch date within the next 12 months. The aim would be to license the complete software programme to a distributor (such as Flame plc), whose customers will be able to access the game online and play using a standard virtual reality headset and console. I believe the game could soon become a bestseller worldwide! I am wondering, too, whether it might be even more exciting if Targera Ltd becomes a distributor, supplying the game online direct to the game-playing public worldwide and cutting-out the middle man!

Targera Ltd has copyright in Project Z. As you can see from the attached note (**EXHIBIT C**), the company owns some valuable assets, including its tenancy of office premises in Baizely (which you might be interested in for a branch office).

Ideally, I want to leave the UK, and do not want to continue the day-to-day running of Targera Ltd. However, I can easily complete the development of Project Z from Spain. Clearly, we would need to agree suitable arrangements for me and Gabriela to share in the success of the venture.

I hope very much you will want to acquire the business and look forward to meeting to discuss matters.

Yours ever

Charlie

Continued

EXHIBIT CFinancial information regarding Targer LtdBackground

- 1) It was incorporated in 2013 in England & Wales and is UK tax-resident and VAT-registered.
- 2) The shareholders are Charles Jacob Krell (“Charlie”), date of birth 3 April 1958, as to 98% of the shares, and his wife, Gabriela Sofia Krell (“Gabriela”), date of birth 1 December 1957, as to 2%.
- 3) It was incorporated to exploit a computerised puzzle game designed by Charlie (named “Targa”), now discontinued, which led to the development of further video games. Targer Ltd designs and licenses software in the games to UK-established distributors (mainly Flame plc) who operate the internet platforms which provide the games to customers in the UK and Europe.
- 4) Targer Ltd’s income is derived from these licences, which are usually granted for a five-year term. Licences currently in force are:
 - (a) “Babuk the Bear” (a children’s game) which expires in October 2024;
 - (b) “Potenza” (an empire-building game) which expires in December 2024;
 - (c) “Malinvaders” (a space-alien game) which expires in March 2025; and
 - (d) “Izambard-Doo” (a construction game) which expires in November 2025.

Financial information

Targer Ltd’s taxable profit/(loss) in years ending 31 March were:

<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2019/20</u>
£’000	£’000	£’000	£’000	£’000
(100)	75	166	198	250

Flame plc has stated that it won’t be renewing the current licences when they expire. Total revenue for 2025 from “Malinvaders” and “Izambard-Doo” is estimated at £65,000.

Corporation Tax, VAT, PAYE and NICs are paid up to date.

However, we have recently become aware of an overpayment and underclaim of VAT. The circumstances are as follows:

- 1) On 3 January 2020, we received an advance payment of £50,000 plus VAT from Flame plc for the Malinvaders licence. The VAT was included in our return for the quarter ended 30 April 2020. Due to employing a temporary book-keeper during Covid, VAT was included and paid again by mistake in the July 2020 return.
- 2) We purchased new computer equipment on 29 April 2020 for £15,000 plus VAT. No VAT was reclaimed as our supplier did not send us an invoice until 1 July 2020. Our temporary book-keeper failed to reclaim this VAT and it remains unclaimed.

These amounts should be considered to be assets of the company.

Accounts for 2023/24 are in the course of preparation.

Continued

Summary of assets and liabilities

My accountants have provided me with a draft balance sheet as at 31 March 2024 as follows:

	<u>Statement of Financial Position as at 31 March 2024</u> £	<u>Statement of Financial Position as at 31 March 2023</u> £
<u>Fixed Assets</u>		
Fixtures and fittings	6,500	7,222
Plant and equipment	<u>48,500</u>	<u>53,889</u>
	55,000	61,111
<u>Current Assets</u>		
Debtors	15,500	33,000
Cash at bank	<u>45,000</u>	<u>163,000</u>
	60,500	196,000
Creditors: amounts falling due within one year	10,500	17,500
<u>Net Current Assets</u>	50,000	178,500
<u>Net Assets</u>	<u>£105,000</u>	<u>£239,611</u>
<u>Capital and Reserves</u>		
Called up share capital	100	100
Profit and loss account	104,900	239,511
<u>Shareholders' Funds</u>	<u>£105,000</u>	<u>£239,611</u>

I believe some figure should be included in the accounts to represent the valuable goodwill of Targer Ltd and will mention this to the accountants.

Note, the following items also belong to Targer Ltd:

- 1) 15-year lease of office premises at Console House, Apex Square, Baizely, WE1 4EW, expiring on 24 March 2028. The annual rent is £52,000 plus VAT. The landlord will demand a premium equivalent to a half-year's rent on assignment or early termination, though this is negotiable.
- 2) Motor vehicle hired from Bookers plc under an operating lease until 31 March 2025. Monthly rental is £600 plus VAT.

The accountants have not included these in the balance sheet!

I currently work part-time and, in addition, Targer Ltd employs one secretary/administrator (Karen Loomis) at a salary of £27,500 per annum.

Continued

EXHIBIT D

Pre-seen information

Client background

ABundle Ltd.
Private limited company incorporated on 1 April 2014.
Registered under Company Number 02333444.

Share ownership

The share capital of the company is divided into 1,000 ordinary shares of £1 each, owned as follows:

<u>Name</u>	<u>Date of birth</u>	<u>Position held</u>	<u>Number of shares</u>
Bernard Eric Krell	1 May 1963	Chief Executive Officer	800
Jennifer Miriam Krell (wife)	16 June 1972	Company Secretary	100
David Raphael Krell (son)	12 December 1995	Director	50
Minnie Bernice Krell (daughter)	7 October 1998	Director	50

Registered office and principal place of business

Rake House
Punter's Wharf
Deal Island
Wealshire
WE1A 4CE

Contact Details

07271 403 807
bernie@abundle.co.uk

Client background

ABundle Ltd was founded by Bernie Krell, who is Chief Executive Officer. The company is a gaming provider operating its own internet platform which supplies casino-type games (e.g., Roulette, Blackjack and Wheel of Fortune) to individual players resident exclusively in the UK.

It holds a Remote Operating Licence issued by the Gambling Commission.

Taxation

UTR 404046782.

ABundle Ltd is UK-resident and chargeable to UK Corporation Tax.

It does not currently make taxable supplies and is not registered for VAT.

It is registered with HMRC for Remote Gaming Duty. Returns are made for three-monthly accounting periods ending on the last day of March, June, September and December.

Note

Remote Gaming Duty is currently charged at the rate of 21% of "remote gaming profits" (calculated as amounts staked in each accounting period less winnings paid out in that period).

Continued

Extracts from the draft Financial Statements for the year ended 31 March 2024Profit and loss account

	<u>Year ended</u> <u>31 March 2024</u>	<u>Year ended</u> <u>31 March 2023</u>
	£'000	£'000
Turnover	3,500	2,800
Cost of sales	<u>(815)</u>	<u>(645)</u>
Gross profit	<u>2,685</u>	<u>2,155</u>
Distribution costs	(150)	(135)
Administrative expenses	(250)	(198)
Bad debts	<u>(10)</u>	<u>(16)</u>
Operating profit	2,275	1,806
Interest receivable and similar income	11	6
Interest payable and similar charges	<u>(20)</u>	<u>(21)</u>
Profit on ordinary activities before taxation	2,266	1,791
Less:		
Taxation	<u>(1,131)</u>	<u>(793)</u>
<u>Profit on ordinary activities after taxation</u>	<u>£1,135</u>	<u>£998</u>

Balance sheet

	<u>31 March 2024</u>	<u>31 March 2023</u>
	£'000	£'000
Fixed assets		
Premises	200	192
Plant and machinery	75	70
Fixtures and fittings	<u>100</u>	<u>91</u>
	375	353
Current assets		
Stock	45	38
Debtors	450	395
Cash at bank and in hand	<u>1,250</u>	<u>985</u>
	1,745	1,418
Creditors falling due < 1 year		
Trade creditors	10	13
Interest creditor	4	10
Corporation Tax	566	340
RGD	<u>140</u>	<u>150</u>
Total current creditors	720	513
Net current assets	1,025	905
Creditors falling due > 1 year		
8% debentures	16	16
<u>Net assets</u>	<u>£1,384</u>	<u>£1,242</u>
Capital and reserves		
Ordinary share capital	1	1
Profit and loss account	1,383	1,241
Shareholders' funds	<u>£1,384</u>	<u>£1,242</u>