Institution **CIOT - ATT-CTA**
Course **CTA Adv Tech Cross-Border Indirect**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1226**	**5972**	**7176**
Section 2	**516**	**2387**	**2904**
Section 3	**606**	**2845**	**3452**
Section 4	**1008**	**4767**	**5775**
Section 5	**706**	**3563**	**4247**
Section 6	**571**	**2667**	**3233**
Total	**4633**	**22201**	**26787**

Answer-to-Question-_1_

Part A

Since the sales from Mazzel Inc have been taking place after 1 January 2020, Mazzel Inc can benefit from the EU wide simplification on call-off stock. Qualifying sales are artificially delayed - so they take place not when they are shipped to the customers member state (destination state) but the supply only takes place once the stock is called off by the customer. This avoids Mazzel Inc (Dutch registered) having it's stock treated as consignment stock (transfer of own goods) and incurring a UK VAT registration. Instead, as called off, Mazzel Inc makes a Dutch zero-rated dispatch and HW Irons makes a UK acquisition.

For the goods dispatched, and for which twelve months has passed, there is a deemed sale and Mazzel Inc should account for a zero-rated dispatch (and HW Irons for an acquisition). This does not require the stock to actually be called off.

The destroyed stock is subject to a deemed acquisition where in excess of 5% of stock in the last 12 months. The 5% allowance is £60,525 (£1,210,500 x 5%) and there is a deemed dispatch and acquisition of goods valuing £20,475 (this is excess destroyed stock over the allowance).

Mazzel Inc should ensure the relevant conditions are met for the simplification:

- A formal agreement is in place (assumed, to be verified).
- Mazel Inc is removing the goods to the state of destination with the intention of supplying the goods to the customer after their arrival (met).
- Mazzel Inc does not have a UK establishment (confirmed).
- Customer is VAT registered in the UK (confirmed - should be

regularly checked on EU VIES or the HMRC portal).
- Mazzel Inc records the removal in a register (assumed, note there is scanning feeding into the ERP system suggesting this is completed).

This should be regularly reviewed to ensure compliance, as when these tests are not met Mazzel Inc could incur a UK VAT registration.

Where Mazzel wants to export the goods, since it does not have (and assume does not want) a UK VAT registration the goods should be returned to the Netherlands). This is permissible under the call-off stock simplification (for goods to be returned to the country of origin without negative VAT consequences). This should be recorded within the register.

Mazzel Inc should then make a zero-rated export from the Netherlands to the US and collect the relevant information (commercial and official and supplementary) to support this.

Part B

Since the sales from Mazzel Inc have been taking place after 1 January 2020, Mazzel Inc can benefit from the EU wide simplification on call-off stock. Qualifying sales are artificially delayed - so they take place not when they are shipped to the customers member state (destination state) but the supply only takes place once the stock is called off by the customer. This avoids Mazzel Inc (Dutch registered) having it's stock treated as consignment stock (transfer of own goods) and incurring a UK VAT registration. Instead, as called off, Mazzel Inc makes a Dutch zero-rated dispatch and HW Kettles makes a UK acquisition.

There has been stock called off totalling £844,200 and for which HW Kettles should account for acquisition tax in the UK and

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Mazzel Inc should account for a Dutch zero-rated dispatch.

For the goods dispatched, and for which twelve months has passed, there is a deemed sale and Mazzel Inc should account for a zero-rated dispatch (and HW Kettles for an acquisition). This does not require the stock to actually be called off, but just to be left in a warehouse for twelve months. Assuming FIFO, there is a small amount of stock from the October 2020 dispatch still in the warehouse (£6,300 worth) and which could be subject to a deemed supply (timelines to be reviewed to confirm but it appears 12 months has passed).

Mazzel Inc should again ensure the relevant conditions are met:

- A formal agreement is in place (assumed, to be verified).
- Mazzel Inc is removing the goods to the state of destination with the intention of supplying the goods to the customer after their arrival (met).
- Mazzel Inc does not have a UK establishment (confirmed).
- Customer is VAT registered in the UK (confirmed - should be regularly checked on EU VIES or the HMRC portal).
- Mazzel Inc records the removal in a register (assumed, note there is scanning feeding into the ERP system suggesting this is completed).

This should be regularly reviewed to ensure compliance, as when these tests are not met Mazzel Inc could incur a UK VAT registration.

The sale to Madellie BV should be effected as follows:

- Goods are returned to the Netherlands as allowed under the call-off simplification. Mazzel Inc then makes a domestic Dutch supply to Madellie BV (charges Dutch VAT as required) and makes the goods available in the Netherlands. And Madellie BV makes their onward supply.

Triangulation could be considered but this is complicated by call-off, since it would involve Mazzel Inc making an initial UK dispatch and moving the goods to Germany, and therefore would require a UK VAT registration. Therefore this is not viable.

Part C

Since the sales from Mazzel Inc have been taking place after 1 January 2020, Mazzel Inc can benefit from the EU wide simplification on call-off stock. Qualifying sales are artificially delayed - so they take place not when they are shipped to the customers member state (destination state) but the supply only takes place once the stock is called off by the customer. This avoids Mazzel Inc (Dutch registered) having it's stock treated as consignment stock (transfer of own goods) and incurring a UK VAT registration. Instead, as called off, Mazzel Inc makes a Dutch zero-rated dispatch and X-Brooms makes a UK acquisition.

There has been stock called off totalling £318,500 and for which X-Brooms should account for acquisition tax in the UK and Mazzel Inc should account for a Dutch zero-rated dispatch.

For the goods dispatched, and for which twelve months has passed, there is a deemed sale and Mazzel Inc should account for a zero-rated dispatch (and HW Kettles for an acquisition). This does not require the stock to actually be called off, but just to be left in a warehouse for twelve months. Assuming FIFO the only stock retained in the warehouse is from 5 April 2021 and therefore 12 months has not passed and no deemed supply has occurred.

Mazzel Inc should again ensure the relevant conditions are met:

- A formal agreement is in place (assumed, to be verified).

- Mazzel Inc is removing the goods to the state of destination with the intention of supplying the goods to the customer after their arrival (met).
- Mazzel Inc does not have a UK establishment (confirmed).
- Customer is VAT registered in the UK (confirmed - should be regularly checked on EU VIES or the HMRC portal).
- Mazzel Inc records the removal in a register (assumed, note there is scanning feeding into the ERP system suggesting this is completed).

This should be regularly reviewed to ensure compliance, as when these tests are not met Mazzel Inc could incur a UK VAT registration.

Since this contract is not ending it should simply be reviewed to capture all deemed supplies (considering 12 month rule) and compliance with evidence requirements.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

It is assumed that BWAY operates itself. Is then considered below where BWAY operates under BO&FUN, however it is assumed BWAY would operate in its own name for remainder of question.

BWAY will trigger a Schedule 1A UK VAT registration 30 days prior to operating since it will be:

- intending to make taxable supplies,
- made in the course of business,
- without a UK establishment,
- and is not otherwise UK VAT registered.

There is no threshold for this registration, i.e. any value of taxable supplies is sufficient.

Schedule 1A, Section 13 has a relief from registration where the taxable supplies will be zero-rated. This would not apply to all boats since Schedule 8, Group 8, Item 1 offers zero-rating only to qualifying ships and does not offer zero-rating to BWAY 1-3 since they are either under 15 tonnes (BWAY3) or not designed for recreation or pleasure (BWAY1 and 2). Only BWAY4 qualifies for zero-rating. Therefore most of the taxable supplies will be at the standard rate.

Where the boats come with a helmsman and crew (BWAY1-3) the supply is of passenger transport.

The supply of passenger transport occurs where the transport takes place per Schedule 4A, para 2. Since the transport takes

place in the UK and outside the UK (in international territory) this supply is apportioned between the two (UK VAT only need to be charged on the UK portion).

A fair and reasonable metric should be used for this - like miles travelled. The UK portion is taxable at the standard rate, no VAT is charged on the international portion.

Where BWAY4 is used with a crew this is also passenger transport, but the UK portion is zero-rated so no UK VAT is charged at all.

Where BWAY4 is provided without a crew, this is for day trips only and is a supply of short-term hire of transport. This covers hiring up to 90 days.

Such a supply of short-term hire of transport is taxable where made available to the customer - per VAT Sch4A, para 3. This would be the UK since it would be in Liverpool, however the whole supply is zero-rated since it is a qualifying ship.

BWAY will incur VAT on maintenance costs by ABA Boats (they may zero-rate their supplies for BWAY4 since it is a qualifying ship). This is all recoverable on the UK VAT Return (Box 4) since it relates to a taxable UK supply, or to a supply which would be taxable where it had took place in the UK (Section 26(2)(B)). This would be similar for any marketing service provided by Bo&FUN, which would likely be wholly standard rated but for which VAT should be recoverable as input tax.

Where BWAY decides to operate under B&O this may be as an disclosed agent, in which case they B&O are making the above supplies and BWAY are providing an agency service and potentially a lease of equipment. This could be more complex, but would save the VAT registration compliance burden - the business would need to determine whether this is significant.

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--------------ANSWER-2-ABOVE--------------
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--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Supplies made by Uniedu Foundation (UF)

The free of charge classroom teaching and web-based lessons would not be supplies for VAT purposes since there is no consideration present.

Since there is no consideration there can be no supply for VAT purposes.

This means UF is not making supplies and a Schedule 1A registration would not occur (since it requires a NETP to make a UK taxable supply or intend to).

This would need to be considered again where a charge is made. Note charge could be to a third party (such as the school) and does not directly need to come from students.

The supply for a single fee of advanced lessons would constitute supply of admission to an event and not an educational course. HMRC have considered the distinction and determined that events are characterised by their short nature (i.e. a week of a seminar is an event vs a semester of a degree is an educational course). This fee is consideration for admission to an event, and the supply is captured by the B2C special rule for admission to an educational event (Schedule 4A, Para 14A)and is taxable in the UK.

UF would need to register for VAT in the UK since it is making taxable supplies in the UK (registering via Schedule 1a since it is non-established).

The income of £75,000 should have output tax accounted on it, likely at the standard rate. UF should ensure this is termed to be VAT exclusive, and therefore output tax of £15,000 is due by UF.

This should be included in Box 1 of the UK VAT Return, as the services are performed.

The website based learning for a fee would appear to be an electronically supplied service, since it is web-based, appears to be automated, and involves minimal human intervention.

An ESS is taxable where the customer belongs (not in the UK necessarily), and UF should keep records to support the determination of belonging - such as IP addresses.

To the extent customers are based outside the EU local tax obligations in those countries would need to be considered.

VAT can be accounted for on this via a MOSS return, which is submitted in the UK but involves charging local VAT on the £9,500 income. This income is just above the threshold EUR 10,000 (£8,818) and a MOSS registration is required. Where this is a complex compliance burden the business does not want, then sales should be capped at £8,500 or the fees should be reduced to ensure UF comes under the MOSS threshold, saving a compliance cost. This income is then wholly taxable in the UK.

Costs incurred by UF

The leaflets are supplied in the UK by the printer, and are likely zero-rated. Where the printer sends them direct from Germany there is a UK acquisition at the zero-rate.

To the extent VAT is charged it is attributable to a taxable

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supply of admission to an event of lectures and is recoverable (not a cost).

Tutors are free lance and likely are not VAT registered. Any VAT registered tutors should be used for the lectures only to ensure the VAT charged is recoverable. Any VAT incurred on the school classes relates to non-business activities and is not recoverable (would be a cost).

The lecturing hall may be exempt depending on the OTT, but where taxable any VAT is recoverable (not a cost).

Web development and hosting will likely involve the incurring of UK VAT and this should be apportioned between business and non-business use via a fair and reasonable method. The business portion can then be recovered and the non-business portion blocked.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

The sales from the UK website, from 1 February 2022, will trigger a UK VAT registration.

This will be under Schedule 1A, since:

- The goods are being brought in the UK by Monitors Inc (MI) and then sold DDP - i.e. a UK taxable supply,
- Made in the course of business,
- And MI lacks a business establishment in the UK (and note no obvious fixed establishment either),
- And is not otherwise UK VAT registered.

MI may wish to appoint a representative or agent to handle their VAT affairs, or handle them directly via HMRC's NETP Unit.

To effect the import from US to UK MI will need an EORI number to import the goods (required since being delivered DDP).

It may also want to consider a deferment account, since this will allow it to gain a cash flow advantage and better management for the payment of duties (including import VAT, which should be recoverable once UK VAT registered).

The UK domestic sales to consumers would then need be assessed for the correct UK VAT rate (likely standard rated).

Note the sales will be high >£100,000, however there is no relevant threshold for Schedule 1A registrations.

Where there is direct sales in February 2022 to Germany and Switzerland this may trigger similar local tax obligations. For example there would likely be a similar NETP registration for Germany as the UK. It is assumed no non-UK sales were made for the remainder of the responses, however where so and there is then a local VAT registration this should be used as appropriate. Note for imports into Germany the UK EORI number could be used (as it is EU wide).

From 1 March 2022, the importing of all stock into the UK will incur import tax, which is then recoverable on UK VAT Return. This is a simplified supply chain which helps manage/reduce VAT registration risks.

There is then going to be an intra-community dispatch and acquisition to business customers in EU countries. This is a zero-rated UK supply (of a dispatch of goods). MI should retain evidence that the goods do leave the UK (customers VAT number, invoice records, description of goods, commercial evidence from the freight agent).

Where the customers are not VAT registered this could be more complex, and there would need to be consideration as to whether the customer is a "business customer". Per Article 9, Directive 2006/112 the test is whether the customer is in business, and receiving the goods for a business purpose (and not private purpose). Per Wellcome Trust AG opinion, some non-business use is acceptable so long as the entity is in business.

The exact set up of the not for profit entities would need to be considered, but note that not for profit status does not mean the entity is not in business and a broader review would need to be considered.

Where there is identified true non-business customers this would then be a UK distance sale and UK VAT could be charged, however

sales would need to be monitored to ensure the local thresholds are not passed (at which point MI would need to register for VAT in those EU countries and then charge VAT).

Where there is a sale to a customer outside the Customs Union (such as Norway or Switzerland) and the sale has to be DDP then this could involve MI incurring local tax obligations as a result. These supplies can not benefit from the EU acquisition/dispatch simplification noted above.

MI should consider renegotiating the Incoterms to be more favourable for these sales - such as DPU. This would mean the Norwegian/Swiss buyer is responsible for the importing and should avoid incurring domestic tax obligations for MI.

For these non-EU sales MI should consider placing the goods in a customs warehouse in the UK. This means they are never in free circulation in the EU, so no duty is paid. They can then be shipped to a non-EU final destination without any EU duty cost.

Onward Sale Relief could be considered for EU sales, but note duty rates are standard across the EU and import VAT is recoverable so it is not clear there is a huge advantage in doing this, and possibly would involve an administration cost.

Customs warehousing should be considered generally for a cash flow advantage.

The courier service from the freight agent is likely a B2B General Rule supply and taxable in US (since MI does not have a UK establishment).

When selling to customers via a different country website, i.e. to Austria via German website, MI needs to make sure the goods are not routed via Germany and go direct to Austria, since this could be a transfer of own goods to Germany and incur German VAT

obligations. All goods should be stored in the UK and dispatched directly to the EU business customer.

MI should consider seeking AEO status (ideally AEOS and AEOC). This should allow it to operate simplifications like OSR and customs warehousing if required, and should make dealing with HMRC more easy since they will be a respected business.

There is reciprocity arrangements on AEO status with the US so current status that MI has in the US may be sufficient - this would need to be reviewed.

MI will need to be complete a dispatches intrastat for the dispatches sent from the UK to EU countries. This should be submitted on the 21st of the month following the relevant month, and submitted electronically. This should detail the actual goods send to each EU state, including the nature of the goods, value etc.

MI will need to be complete an EC Sales List for goods. This should be submitted online within 21 days of the end of the preceding month and should be submitted monthly. This should detail the VAT registered customers it has sold to (only to be used for VAT registered customers). Other evidence should be retained for B2B sales to non-registered customers since EC Sales Lists cannot process non-VAT registered businesses.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

1.

Deferment account

Where GraDecs Ltd pursues a deferment account there are advantages and disadvantages to consider:

-There is a cash flow benefit.

Any duties deferred (including import VAT) would need to be paid on the 15th of the following month, rather than immediately. Since duties are not recoverable this creates a clear cash flow gain.

-There is an administration cost.

A deferment account requires a guarantee to be submitted (Form CCG2), and a guarantee needs to be provided which covers the amount deferred in any period.

This can be complicated to organise, it could be costly, and where miscalculated it means that the deferment could not be used (i.e. if GraDecs has a £1 million deferment but imports £1.1million then £100,000 would not be deferrable).

This should be considered alongside the AEO reduction noted below.

-Only of advantage where working with businesses without a deferment account, or importing for multiple.

Where GraDecs imports for one business who has a deferment account then their account can be used at point of import. GraDecs only needs their own where they will be importing a consignment for multiple businesses (in which cant be imported) or importing for a business without an account (in which case no account to use).

-Risk of liability.

Where GraDecs acts as a direct representative, uses their account, and then the business fails to pay they will be joint and severally liable for the debt.

-Commercial appeal.

Businesses will want to work with importers who provide minimal administration, and so will see appeal in being able to use GraDecs account (and will pay for this benefit).

Where GraDecs chooses to pursue a Deferment Account it will received an account number (a DAN) which it should quote at point of import on the C88.

AEOC

There are specific benefits only made available where a business is an Authorised Economic Operator - Customs, including:

- Can then move goods which in temporary storage across the EU (not just UK).
- A 70% reduction in the deferment account guarantee required. This should then be considered where a deferment account is sought to lessen the cost.
- Ability to undertake centralised clearance and complete self-assessments (once permitted).

An AEOC also will find it easier to apply for customs simplified procedures (such as the National Export System) and for special procedures (such as inward processing relief).

Where guarantees for special processes are required these will also be reduced.

Being an AEOC will more generally add to the reputation of a business and will be of appeal to potential customers, and should make it easier to deal with authorities in other member states.

HMRC also claim that businesses which meet the conditions will find they then have better communication and less theft because of the changes implemented to meet these conditions.

There is also some reciprocity deals with the EU and other countries which may allow the business to operate as an AEO in other countries (to be considered in country specific detail where required).

HMRC have also noted that in future they may review supply chains without AEOs in greater detail, so having this status is preferable from a scrutiny perspective.

AEOS is not considered, but it should be noted there are many shared condition, so seeking AEOC status puts GraDecs in a good place to satisfy AEOS if it later decides it wishes too.

2.

GraDecs could seek IPR authorisation for Crazin. This would be SP3 authorisation, but GraDecs should make clear where Crazin is only going to use this occasionally (up to three times a year) it could use the simplified authorisation and declared it on the VAT Return.

GraDecs needs to check if it is providing direct or indirect representation. Where it is indirect representation it is jointly liable for any errors .

In either case, it should ensure that any submissions are accurate, and the value declared for Customs purposes should be Cost, Insurance, and Freight. By stripping the mark-up out of the freight cost GraDecs would be understating the value, and the full value of freight up to the point of import should be included.

GraDecs should consider if suspects Crazin was confused or trying to commit fraud, and reconsider it's engagement position.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

1. Washington Boats (WB) should consider what would be the correct classification for customs duty.

It should look to find the correct and lowest possible duty rate using the agreed General Interpretive Rules for classification.

Where there is ambiguity as to whether the parts qualify for a low duty rate there should be a review of the explanatory notes - these provide helpful guidance and illustrations.

WB should also consider if this has been dealt with briefly by another business. It could review the Binding Tariff Information ruling database to see if a previous importer has validated the low duty rate would apply. WB could not rely on this ruling directly, but it could treat it as 'informative' when reviewing the potential classifications.

WB could also review the rulings of UK courts and the ECJ to see if this matter has been considered. Again WB would not have been a party to the case, but it could be informed by the decision.

Where WB is still not sure if a low duty rate could apply it could seek a BTI from UK Customs. This would then be legally binding for three years across the EU, and would provide protection if the law then changes within the period (can be relied on for six months for binding contracts).

2. WB should look to see if the parts could be sourced from a UK or EU supplier.

In either case these suppliers would not result in the incurring of duty since the parts would generally be in free circulation within the EU at point of sale.

WB would incur UK VAT or account for acquisition tax, rather than import VAT, in this circumstance.

WB should avoid purchasing from stock held in customs warehouse, since WB could then be seen as importer and pay the duty.

3. WB should consider importing, but from a country with a preferential trading agreement.

The parts would have to originate from the preference country, but then they would benefit from a preference duty rate (generally of zero).

4. WB should look to see if there is a tariff quota it can utilise to import at a reduced duty rate.

This information can be viewed online or from Customs resources.

Options 3 and 4 should be considered at the same time since it could be that there is a quota and an available preference, and then a cost-benefit analysis should be completed.

5. WB should consider using a Customs Warehouse. This would mean parts are not in free circulation immediately, so if any are faulty or surplus they could be returned without duty being paid (only paid when leave warehouse for free circulation). This means no excess duty is paid.

6. WB could consider expanding it's target market to non EU customers, and then could benefit from a duty relief (Inward Processing Relief). This would need to be reviewed in detail as

it may not be economical to do this.

WB could also utilise Processing under Customs Control to pay duty on the product actually released, which may allow for a lower duty rate depending on the product. This would require further review to determine what the end product would be and the applicable rate - it may not generate a duty saving / could generate a duty cost.

Note both options 5 and 6 require authorisations/guarantees which could make them costly and negate any duty saving generated.