Institution **CIOT - CTA**
Course **Adv Tech Domestic Indirect Tax**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**865**	**4140**	**4994**
Section 2	**764**	**3671**	**4423**
Section 3	**566**	**2560**	**3099**
Section 4	**948**	**4303**	**5234**
Section 5	**762**	**3451**	**4200**
Section 6	**656**	**3031**	**3667**
Total	**4561**	**21156**	**25617**

Answer-to-Question-_1_

Supplies made by Starling Retreats Ltd

Starling Retreats are intending to use the property to provide day-time retreats and short-term stays.

Day-time retreats are unlikely to fall under the welfare exemption as they are not provided by a Charity and appear to be more for relaxation, and therefore will likely be standard rated supplies.

Similarly, short-term accomodation under 28 days is a standard rated supply as this overrides the land exemption. This is similar to hotel accomodation and will therefore be standard rated. The retreat package alone is likely to be a single supply and therefore all taxable at the standard rate.

Tours can also be bought into a retreat package. The question lies whether this can be deemed a separate supply of the tour, or included with a single supply of the taxable retreat package. Using principles deemed by case law it seems that the Tours are optional and can either be chosen or not, and using the CPP case, it would appear clear that the tour is not just ancillary to the retreat, as people would choose to do the tours themselves. Therefore, I would expect this to be a separate supply of the tour, but still taxable at the standard rate.

In regards to the Tour, this would potentially fall under the Tour operator margin scheme as it relates to bought in tours including travel. Service of tour guides and passenger transport are always TOMS supplies when bought in and resold, which appears to be the case in this scenario. As a result, instead of accounting for VAT on the full cost of the tour and travel, Starling Retreats would only be required to account for output tax on the difference between the cost and the price charged to customer. They would also be unable to reclaim any input tax incurred on the purchase of the tours or travel.

As per the above, as the retreat package and short-term stay is a separate supply, and these are in-house supplies using their own resources, property etc, TOMS is unlikely to apply.

If the tours and the retreat package do form a single supply at any point where these can not be separated in a non-artificial way, an apportionment would be needed between the bought-in supplies and in-house supplies. The bought-in supplies would be subject to the TOMS and VAT only accounted for on the margin. The in-house supplies would be usually VAT principals with VAT declared on the full value. An apportionment can be done through a cost-method or market value method.

A provisional percentage margin scheme can be applied throughout the year. Supplies under the TOMS cannot have a VAT invoice issues for them.

Starling Retreats should VAT register when its supplies exceed £85,000. For TOMS supplies, it is only the margin that counts towards this. For normal supplies, these would fall under normal VAT registration rules.

Property/building project

It is likely that the remaining 7% is likely to be the consideration for the property from Birmingham to Miltoon Ltd. This is likely to be an exempt supply (subject to no option to tax) by Birmingham to Miltoon and may create issues for VAT recovery by this subsidiary. However, as a charity it is unlikely to have much business supplies anyway.

Miltoon will likely incur costs at the standard rate from external contractors as these are unlikely to fall under any relief as although the supplies will be to a Charity, the charity is not using it for charitable purposes and therefore will not qualify for the RCP relief. This is likely to be £1.5m of VAT incurred by Miltoon.

As Miltoon has opted to tax, it will be making a taxable supply of property to Retreats, along with the potential taxable supply to Birmingham of the 7%. As a result, it should be able to recover the VAT it incurs on the overnight retreat facility as being directly and immediately linked to the taxable supplies of the properties. There would be no disapplciation of the option to tax as Retreats would use it for taxable purposes. The £1.5m incurred would be subject to the Capital Goods Scheme due to its value being over £250,000 of expenditure and therefore Miltoon Ltd would need to monitor the use of the building over a 10 year period, and if there is any exempt/non-business use, an adjustment would be required.

As Retreats' supplies are not affected by the option to tax (i.e these are taxable anyway), their supplies are wholly taxable and therefore any VAT it incurs would likely be recoverable. The VAT on the annual rent would be recoverable.

There may be an issue with the 7% lease to Miltoon Birmingham as this is likely to be for a relevant charitable purpose (use as a church) and therefore any supplies would be exempt to it, whether from Miltoon Ltd or Retreats. Due to the large costs on the external contractors, it would make more sense for the propety to be leased in full to retreats (causing no issues with recoverability for Miltoon Ltd) and then for Retreats to make a potentially exempt supply. This may cause issues in regards to VAT recovery for Retreats.

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

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

Answer-to-Question-_2_

Summary of NHS supplies

THe NHS trust recieves a large amount of non-business income from the government (grant funding) but also is likely to have exempt supplies of private healthcare. These would fall under the exemption for Medical care provided it is of actual medical care by a registered medical practitioner. In a hospital you would expect this to be the case and therefore exempt.

Coffee Shop

If the coffee shop is ran in-house, the supplies made would likely be taxable. These could be standard-rated hot food/catering to be eaten on site, or zero-rated cold takeaway food. This may create a better VAT recovery on its overheads of the hospital as a whole under the partial exemption standard method as it would be an increase in taxable supplies and the overheads of the whole hospital (electricity etc) would not be residual as also relating to the taxable supplies. The directly attributable costs of food, drinks etc would be recoverable as directly and immediately relating to the taxable supplies made by the coffee shop.

In contrast, the offer of a third-party appears to be under a lease rental agreement, with the trust making a supply of land to the third-party, in return for rental payments and an annual percentage of sales. This would be exempt if the NHS trust has not opted to tax the property. I would recommend that if this option is chosen, the trust should opt to tax the property as it would mean they charge VAT on this lease, and therefore any costs in regards to the lease to the third party would potentially be recoverable and the VAT on the rent to the third party would be recoverable as they are usuing the property for wholly taxable supplies. If an option to tax can't be made commercially due to other areas of the property, this would be additional exempt income for the trust and impact the VAT recovery. If this option is taken forward without an option to tax, the fit out costs should go through the occupier as they are using these costs for the onward taxable supplies of the coffee shop. The trust may struggle to recover this VAT as it would directly relate to the exempt lease.

The tax points of the continuous lease would be the earlier of payment or a VAT invoice being raised.

Commercially it may be difficult for the NHS trust to operate a coffee shop itself as this would be differing to its usual supplies but in terms of VAT recovery, it may create benefits wider than just the coffee shop.

Car Parking

The car park extention is likely to be a capital item for the purpose of the Capital Goods Scheme and therefore its taxable use should be monitored over 10 years and any adjustments done as necessary. This is due to the extention costing £250,000 +.

Parking is generally a standard-rated supply and therefore at first look the VAT incurred would be wholly recoverable as directly relating to taxable parking supplies.

The free parking permit would potentially be a non-business supply. However, as this is to employees of the business, I would argue it is for the purposes of the business and not create an issues in VAT recovery.

The question is whether the parking supplied with the private healthcare packages is a single supply of healthcare packages or a multiple supply with the parking separate. There are a number of factors when determining this but in my view this would be a separate supply of parking. This is due to there being a separate optional fee (similar to the principles of insurance cases where insurance is an optional extra) and the person purchasing medical care does not require the parking as they could walk/get other transport to the hospital. Parking is also available seperately for people not booking medical care and therefore I expect this to be a separate supply of parking.

Therefore in my view, as the parking expansion is used for wholly taxable supplies of parking, the VAT could be recovered in full. This would need to be monitored over the 10 years CGS period.

Renal department

The Trust will be outsourcing the healthcare facilities for the third party to complete non-business activities.

Where medical consumables are provided in association with medical care, these supplies would likely follow the same liability and therefore, would also be non-business if provided free or exempt if for private medical care.

Where these are provided separately, these may be taxable supplies, but this would be the third party to declare.

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Adults clothing is standard-rated, chilrens clothings is zero-rated where it is designed for a person under 13 and held out for sale as an item for children.

In regards to the cash stolen, as the taxable supply had already taken place and the cash was initially received by the business, unfortunately Mini-T Ltd would be required to account for output tax on the supply and there would be no adjustment under the calculation schemes.

Where items are given away 'free' when purchasing another product, using the principles from the M&S case the total consideration is for everything that was supplies (i.e the adult item and the childrens). As a result, there should be an opportionment for the total consideration on all supplies of this nature to be both standard rated supplies of adults and zero-rated supplies of childrens clothing. As a result, this would not affect the calculation schemes.

In regards to the stock damaged, there is no issue in regards to VAT recovery as these were purchases initially for the purpose of taxable supplies. Adjustment should be made to the Estimated selling price for wastages.

Direct Calculation Scheme 2 ("DC2")

For DC2, retailers must calculate the estimated selling price for the class of goods forming the smallest proportion goods of their supplies as well as the other goods.

So for the periods in question the minority goods are the zero-rated childrens clothes and this would be deducted from the standard rated sales figures.

The scheme works by creating the Estimated selling price of the purchases split between each group of supplies (SR or ZR). Then using the daily gross takings based on the proportion of these supplies.

Scheme two requires an annual adjustment on stock.

Period

Under retail schemes - VAT invoices should still be raised to VAT registered businesses.

Apportionment scheme 1.

June 2022 - Standard rated supplies 65%.
DGT x 65% = £188,500 / 6 = £31,416 output tax to declare. Other supplies are zero-rated.

September 2022 = 176/275 = 64%
DGT x 64% = £181,760 / 6 = £30,293 VAT due

December 2022 = 67% x DGT. £113,230 / 6 = £18,871 VAT due.

March 2023 = 67% x DGT. £136,010 SR / 6 = = £22,668 VAT due.

June 23 = 76.5% x DGT. £177,480 / 6 = £29,580 VAT due.

September 23 = 63% x DGT. £223,837 / 6 = £37,306 VAT due.

December 23 = 59% x DGT - £150,446 / 6 = £25,074. HOwver, wastage adjustment meants ESP of £2,500 reduced for Standard and ESP of £1,000 adjusted for ZR. Therefore, SR - 154,000 - £2,500 = £151,500. ZR - £105,000. 59% x DGT = £150,446 / 6 = £25,074 VAT due.

March 24 = 70% x DGT = £179,065 / 6 = £29,844 VAT due.

ANnual adjustment.

Direct Calc

Find ESP of minority goods which would be ZR goods, deduct this from daily takings and then times the result by VAT fraction as standard rated goods.

June 23 - 232,00 - 52,000 = £180k / 6 = £30,000 output tax due.

September 23 - 350,000 - 124,000 = 226,000 / 6 = £37,666

December 23 - £254,000 - £106,000 = £148,000 / 6 = £24,666

March 24 - Do not include damaged stock. £264,000 - £76,000 / 6 = £31,333

To change schemes an adjustment must be done to end the scheme before the new scheme begins.

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

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

Answer-to-Question-_4_

As KZ37 has opted to tax the building, Candy will incur VAT on the lease of the new salon. She is currently VAT registered and to the extent that the VAT incurred is related to the taxable supplies of the Salon, this would be recoverable.

The rent would be taxable due to the option to tax. Assuming the buildings insurance is in the name of the Landlord, the insurance would be further consideration for the taxable supply of property. The electricity would follow the same liability as the lease as this appears to be a flat rate and not a metered amount supplies onto Candy. All rent and associated costs would be taxable in line with the option to tax.

Candy has made it clear she would however like to de-register from VAT. This would mean the VAT incurred on the lease would not be recoverable. It may be benefitiall to split out these costs i.e receive a metered supply as this may fall under the de-minimis values and be reduced rated, get their own buildings insurance as this would be exempt, but artificially split transaction may follow Halifax as being abuse and not able to be completed to reduce VAT related costs.

Remaining not-VAT registered

As Candy makes taxable supplies as a beauty therapist, she would be able to de-register from VAT where the taxable supplies are under £83,000 annually, which appears to be the case.

Once de-registered, Candy should no longer charge VAT to customers, and therefore to prevent a requirement to register from VAT she must reduce her prices to ensure that the registration threshold of £85,000 is not breached. If the prices remain the same her £80,000 of taxable supplies would now be £100,000 as the VAT charged before would now contribute to the value of the taxable supplies. She must review this regularly to ensure the registration threshold is not breached,

Options for the smaller room

Andi - This would be a supply of land to Andi for £7,000 per annum and be exempt from VAT. As Candy wants to de-register from VAT there would be no advantage in opting to tax the property as this would create taxable income.

Jane - The question for this supply is whether the additional use of the facilities takes this away from being an exempt license to occupy land. Jane will be able to use the kitchen, toilet, phone and advertising of Candy's social media.

Using HMRC's land and property notice, the use of the kitchen and toilet would not be sufficient to stop the supply being a license to occupy land as this is access to shared facilities, however the use of the phone and advertising may cause issues. My view that the phone and advertising would likely cause this to be a taxable supply of facilities, with the supplies being close in nature (therapist and healer) the additional charges are likely to tip it over the edge of being an exempt supply of land. As a result, this £8,000 would be a taxable supply and contribute to Candy's VAT registration threshold. Candy could potentially split these supplies up but again this may be deemed artificial and HMRC may look into this as abuse.

As a result, to avoid any risk of being required to VAT register due to the sub-lease, it would likely be benefecial to just supply to Andy under an exempt licence to occupy that would not contribute to the registration threshold.

To deregister from VAT, Candy will be required to notify HMRC through form VAT 7. There will also be a deemed supply of any taxable assets on hand at the de-registration date.

If the value of VAT through the deemed supply in a total of less than £1,000 of VAT no deemed supply is necessary.

The false lashes would be a deemed supply at £100 as it is the replacement value. £20 VAT should be accounted for.

The gel machines and other equipment would be a deemed supply at the market value of £1,200. The net book value is irrelevant. £200 VAT should be declared.

The VAT on the van would have been recoverable in the first place and therefore there will be a deemed supply at the open market value and the potential supply to her neice would be to a connected party. VAT should be declarted on the £4,400.

IPT

IPT is charged on UK supplies of contracts for insurance. There must be a premium, a risk to be insured of an uncertain event and the insured must be the one at risk.

The buildings insurance incurred by the landlord would be a transaction subject to IPT as the risk is located where the building is located in the UK. This would be subject to IPT at the standard rate at 12%.

The landlord will be making an onward charge for buildings insurance. However this will be included in the rental lease therefore not be a contract for insurance to Candy, with no requirement to register for IPT and charge to Candy.

The public liability insurance is for over 4 months and therefore the location of the risk is determined by the residence of the person being insured. As a result this will be deemed to be the UK and IPT will be charged based on the premium of £2,000. The fact that Candy was outside the UK when she took out the policy will not affect this. A requirement to register for IPT will be for the insurer as there is no threshold. This will be a standard rate 12% transaction and therefore IPT will be charged as part of the premium (12/112 x 2,000) = £214

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

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

Answer-to-Question-_5_

Motinz Ltd's supplies of insurance will be exempt from VAT under group 2 of schedule 9 of the VAT act 1994.

The loan of the dash cam could potentially be a supply of services as although there is no change in title at the date the insurance is taken out and it is prett clear the expectation is that, similar to hire purchase supplies, title is likely to transfer at a later date and therefore may suggest a supply of goods. I understand this only applies where this is a separate supply.

Therefore, the main question lies whether the dash cams loaned to the driver will be deemed a separate supply. This supply would be taxable if deemed separate to the insurance.

There is a vast amount of case law on single and multiple supplies and the principles must be considered to determine whether the supply of the dash cam is further consideration for the exempt insurance supplies.

The dash cams are not available to buy without an insurance policy which would lean towards a single supply, as in previous case law where the goods are also supplies separately this has leant towards a multiple supply.

The supply of the dash cam is at a very discounted rate compared to the cost retailers would charge, as a result you would expect that the supplies of insurance and the dash cams are feasibly linked to each other. The insurance company's supplies of insurance is benefitting from the dash cam as it is used to monitor the safety of the driver and data used to determine any refunds.

For the extra £10, there is also a potential of refunds and therefore suggests the two are linked. And the continued use is also included if the customer renews but there is no charge.

Using the priciples in Levob where it would be artificial to separate these supplies due to how closely they are connected, I would determine this to be a single supply of insurance services. The two are so linked together in terms of cost, use, etc that these should be treated singularly. Using CPP principles the dash cam is ancillary to the supply of insurance, and provides for better enjoyment of the insurance (safer driving, potential refunds etc).

The £15 to keep the dash cam is likely to be a separate supply of goods. The purchase is separate to the original supply of insrance and involves a physical change of ownership at that point. I would therefore expect this to be a taxable supply of goods at that point in time with VAT declared at 1/6th of the value.

When there is a refund, this is a refund of insurance and therefore reduces the consieration for an exempt supply. This would create a change in the original supplies value but as this was exempt anyway there would be no adjustment required.

The purchase of the dash cams are likely to be residual as relating to the exempt supply of insurance, as well as the taxable sale of the dash cam at the end of the policy date. Recovery would be in line with the company's partial exemption method. A PESM can be applied for to HMRC if the current recovery method is not fair and reasonable.

IPT

IPT is charged on UK supplies of contracts for insurance. There must be a premium, a risk to be insured of an uncertain event and the insured must be the one at risk. Risks located outside the UK are exempt.

For supplies of motor insurance, these are deemed to be located where the car is registered. Therefore the insurance of UK registered cars are likely to be subject to IPT in the UK. For the supplies made to customers in the Isle of Man, IPT should not be charged if the car is not registered in the UK.

There is a higher rate for supplies of motor vehicle insurance which is 20%. However, this is only applicable where insurance is by a supplier of motor cars or a person connected. Therefore, as Motinz Ltd only supplies insurance, this higher rate would not apply and therefore the standard rate of 12% will be applicable.

Motinz would be required to register for IPT if not already registered, within 30 days of intending to supply UK insurance

In regards to the dash cam insurance, as Motinz is resident in the UK as a company the insurance policy will be UK related and therefore it will incur IPT at the standard rate of theses policies.

Reinsurance is exempt from IPT.

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

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

Answer-to-Question-_6_

SDLT

SDLT is payable on the purchase of land in the UK.
The SDLT rates payable are dependent on whether the supply is of residential or non-residential land.
Mixed use land is generally deemed to be non-residential.
Using SDLT case law, for the land to be non-residential, there must be a commercial intention for the land to be deemed non-residential. In relation to the use of the land for grazing, as the occasional sales are not for profit making incentive, this is liklely to not be non-residential. However, the campsite used is likely to be commercial as it is gaining a £20 income and appears to be for commercial reasons.
Therefore as the land is mixed use I would expect the non-residential rates to apply.
Each acre will be deemed part of a single transaction as between the same parties at the same time.

The total consideration will be £60,000 x 4 = £240,000. Plus uncertain consideration is always deemed as taking place from SDLT and therefore a reasonable esimation of the 20% proceeds should be included on the SDLT return to HMRC.

The consideration will include VAT so will be an extra 20% due to the option to tax.

There should be an SDLT return within 14 days of the effective date (usually completion) and paid within the same amount of time. The uncertain consideration can be applied to be deffered as it will be after 6 months, and when the unascertainable consideration is finalised or not paid, a second return can be made to ensure the right amount was declared/request a refund from HMRC.

The first £150,000 - 0%
£150k - £240k - 2% = £1,800 SDLT
Additional uncertain consid would be taxable at 2% up to 250k and 5% afterward but can be deferred (see above).

VAT

The consultancy business is likely to be fully taxable and therefore VAT costs in relation to these supplies can be recovered in full.

As a sole trader, all supplies will be deemed under the VAT registration of his consultancy business.

The campsite supplies for £20 a night will be exempt supplies of land, specifically falling under the exemption for land without an option to tax.

This would make him partly exempt.

The sales of eggs and lamb would be taxable, but likely zero-rated as being supplied for human consumption and therefore no VAT will need to be charged on these sales.

The purchase of livestock is likely to be zero-rated so he will not incur VAT on this.

The supplies of wool at £2 would be taxable at the standard rate. The childrens hats would be zero-rated, assuming it is made using sheep wool as opposed to fur.

The ride down to the orchard and fruit is likely to be a single taxable supply. It would be artificial to separate these supplies to be zero-rated food and the standard rated experience. THe customer thinks they are getting a single experience of the ride and the fruit picking and therefore should all be standard rated. The transport can't be zero-rated as it is designed for less that 10 people.

As the land is opted to tax, VAT will be cahrged on the purchase of the land. There will be no reliefs available.

VAT can be recovered on this in relation to the taxable use of the land. As the land appears to be used for both taxable (farming/experiences etc) and exempt supplies (camping) I would expect the VAT will be residual and recovered in line with Pryce's partial exemption recovery method.

A PESM can be applied for to HMRC if the current recovery method is not fair and reasonable.

Pryce could incorporate a business for the camping which is the only exempt area of the business and purchase the two acres with that. Anything he continues to do as a sole-trader would be fully taxable and therefore all VAT could be recovered on the other two acres.