

# **The Chartered Institute of Taxation**

**Awareness**

**Module A VAT including Stamp Taxes**

**November 2021**

**Suggested solutions**

1)

Confirmation that:

- The individual was not a taxable person at the time the fees were incurred. 1
- The individual is an employee, member or officer of the company. 1
- The company has reimbursed the individual for the cost of the accountancy advice. 1
- The services were provided within the **six months** prior to the date of **registration**. 1 + 1
  - Appropriate evidence (eg the VAT invoice) is held. 1

**Max 5 marks**

2)

	£	
Output VAT		
Sales: £62,000 x 20%	12,400	1
Cost of gifts (not exempt as over £50 per person): (4 x £105) x 1/6	70	1
Fuel scale charge (£246 x 1/6)	41	1
Input VAT		
Purchases: £18,000 x 1/6	(3,000)	1
Fuel: £180 x 1/6	(30)	1
	<u>£9,481</u>	

3)

There are potentially two elements to the supply: the standard-rated supply of accommodation and the supply of electricity at the reduced rate. 1

Therefore, we need to establish if the supply is a single or mixed supply. 1

There will be a single supply if one element is ancillary to the other, i.e. it is not an aim in itself for the customer but is provided for the better means of the principal service. 1+1

The supply of electricity would appear to be ancillary to the principal supply of serviced accommodation and therefore the supply is a single standard-rated supply. 1

4)

Services provided to Hector:

The basic tax point is the date the services were performed: 24 October 2021. 1

The basic tax point can be overridden as there has not been an earlier invoice or payment and the invoice was issued within 14 days of the basic tax point. 1

The actual tax point is the date the invoice was issued: 30 October 2021. 1

The company can stick with the basic tax point if it wishes.

Services provided to Helen:

This is a continuous supply of services and so there is no basic tax point. 1

The tax point is the earlier of payment and invoice: 28 October 2021. 1

5)

	£	
Van: 100% recovery as private use insignificant	2,000	1
Purchased car: input tax blocked	nil	1
Repairs: 100% recovery (no restriction for private use)	160	1
Leased car: not blocked; 50% recovery as leased	140	1
Hire car: 50% recovery as replaced Suzuki	20	1
	<u>£2,320</u>	

6)

Part 1

Based on the estimated figures, the company will leave the cash accounting scheme on 31 December 2021. This is because the turnover in the **12 months** to the end of the quarter (£1,715,000) **exceeded £1,600,000**. 1+1

Part 2

The company will need to account for VAT in the normal way from 1 January 2022. 1

With regard to outstanding VAT (eg VAT on supplies made/received on or before 31 December 2021 and paid for on or after 1 January 2022), the company has the option of accounting for it on a **cash basis** for **6 months** after the end of the quarter in which it left the scheme (up to 30 June 2022). 1+1

7)

VAT return for quarter ended 31 July 2020

There is no surcharge as this is the first time a default has occurred.

The company would have been issued with a surcharge liability notice specifying the surcharge period of 1 August 2020 to 31 July 2021 1

VAT return for quarter ended 31 January 2021

This is the first default in the surcharge period. As such the surcharge is equal to 2% of the unpaid VAT: 2% of £24,000 = £480. 1

The surcharge period is extended to 31 January 2022. 1

VAT return for the quarter ended 30 October 2021

This is the second default in the extended surcharge period. As such the surcharge is equal to 5% of the unpaid VAT: 5% of £7,700 = £385. 1

As this is below £400, HMRC will not collect the surcharge. 1

The surcharge period is extended to 31 October 2022.

8)

Part 1

The option to tax will be made in respect of the building as a whole. However, it will not have an effect in respect of the first floor as it is used as a dwelling. 1

Therefore, Tim will be able to recover the VAT on the repairs to the extent that they relate to the ground floor. 1

Tim will need to charge VAT at the standard rate on the rent payable in respect of the ground floor. 1

At present, the ground floor is occupied by a person (Mark) for the purposes of making standard-rated supplies. Therefore, the tenant can recover the VAT and is no worse off.

A future tenant may not be able to recover the VAT in full, in which case Tim may have to consider reducing the rent. 1

Part 2

A person has 30 days in which to notify HMRC that an option to tax has been exercised. 1

9)

Transfer of a going concern (TOGC) treatment applies automatically where the conditions are met. 1

Where a transaction is a TOGC, the transaction is outside the scope of VAT. 1

Therefore, VAT should not have been charged on the transaction and Cameron will be unable to recover the amount paid as input tax. 1

The seller should cancel the invoice and refund Cameron the amount charged as VAT. 1

If the amount charged as VAT has been paid to HMRC by the seller, HMRC may allow Cameron to recover it as input tax. 1

10)

Part 1)

The companies may form a VAT group as:

- Winstonn Ltd holds more than 50% of the shares in Agnez Ltd and so controls Agnez Ltd 1
- Both companies have a fixed establishment in the UK

Part 2)

The two companies are treated as a single entity with the result that:

- A single quarterly VAT return for both companies must be submitted to HMRC. 1
- Supplies made between the companies are ignored for VAT purposes. 1

One company (the representative member) is responsible for the group's VAT affairs. 1

Both companies are jointly and severally liable for the VAT due. 1

**1 mark awarded (up to a total of 4 marks for Part 2) for any other reasonable consequence of joining a VAT group other than possible advantages and disadvantages of group registration.**

11)

Part 1)

Shares in Bosmium Ltd:  $\text{£}12,300 \times 0.5\% = \text{£}61.5$ , round to  $\text{£}65$  1+1  
Shares in Biron Ltd:  $\text{£}nil$  as consideration a maximum  $\text{£}1,000$  1

Part 2)

Shares in Bosmium Ltd: Stock transfer form must be sent with the payment to HMRC for stamping within 30 days of the date of the transfer. 1

Shares in Biron Ltd: No need to send to HMRC but must complete the exemption certificate on the back of the stock transfer form. 1

12)

Sale of property: As Ytali Ltd & Npais Ltd are at least 75% owned by Qrai Ltd, group relief may be claimed with the result that the transaction is exempt from SDLT/LBTT. 1

Sale of Npais Ltd: group relief is withdrawn as the purchaser left the group within 3 years of the sale of the property. 1

		SDLT	LBTT	
£0 to £150,000: 0%	£150,000	£0	£0	1
£150,000 to £250,000: 2%/1%	£100,000	£2,000	£1,000	1
Over £250,000: 5%	£175,000	£8,750	£8,750	1
	<u>£425,000</u>	<u>£10,750</u>	<u>£9,750</u>	