

# **THE CHARTERED INSTITUTE OF TAXATION**

## **ADVANCED TECHNICAL**

### **Domestic Indirect Taxation**

**November 2025**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- 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 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Dr Ibrahim is an NHS doctor specialising in treating the faces of burn victims in outpatient appointments following surgery. These include laser removal of damaged skin; intensive derma blading to remove dead skin cells; and innovative treatments with medicines to aid regrowth and enhance the skin's appearance. He wishes to undertake this work privately outside the NHS. He will also expand his services to private clients that want facial growths/tags removed and derma blading of skin such as the removal of facial hair for aesthetic purposes, to increase their confidence and mental well-being.

His wife is an ex-school teacher, who recently completed a postgraduate diploma in mental health and psychology. She wants to become self-employed to be contracted by schools/colleges (and private companies when her business expands) to give lectures to teenagers as part of their one year psychology curriculum on 'body confidence', mental health and healthy relationships.

The Ibrahims are unsure whether to operate their businesses separately as sole traders or to set up a single limited company which, as a principal, will supply their services. There is an annex to their house that could be used for medical consultations and outpatient procedures, and for Mrs Ibrahim to use as an office when preparing her lectures.

Their fee income for the first year is anticipated to be the following (without any significant growth until year three):

Mr Ibrahim:

| <u>Income</u>                       | <u>Relating to Burn</u> | <u>Relating to</u>          |
|-------------------------------------|-------------------------|-----------------------------|
|                                     | <u>Victims</u>          | <u>Aesthetic treatments</u> |
|                                     | £                       | £                           |
| Initial and follow up consultations | 8,000                   | 12,500                      |
| Skin treatment services carried out | 30,000                  | 50,000                      |
| Medicines administered/prescribed   | 6,400                   | 1,600                       |

Mrs Ibrahim:

Income from lectures at schools/colleges: £35,000.

Due to this being a new venture for Dr Ibrahim, he has agreed with an insurance company to provide a three year insurance backed guarantee with each patient being the policyholder. The clients will be charged £80 for the insurance. Dr Ibrahim will not itemise it separately but rather will subsume it into the cost of the overall fees charged. Dr Ibrahim will keep £8 out of the £80 as his commission for selling the insurance.

Dr Ibrahim is proposing to keep his invoicing simple and issue a total fee for each client covering the initial consultation, follow up work, and medicines/creams etc.

**Requirements:**

- 1)

**With reference to relevant cases, explain the VAT implications of the Ibrahims operating as separate sole trade businesses, or as a single limited company.**

**You should NOT discuss the rules on disaggregation of activities.**

(17)
- 2)

**Explain the IPT and VAT implications of the supply of insurance services.**

(3)
- Total (20)

2. Thalli owns three residential properties which are currently rented out.

| <u>Property</u>                            | <u>Current Valuation</u> | <u>Original cost</u> |
|--|--------------------------|----------------------|
|  | £                        | £                    |
| 23 High Street                             | 250,000                  | 120,000              |
| 11 Caxton Close (with planning permission) | 395,000                  | 275,000              |
| 159 Meadow View                            | 525,000                  | 450,000              |

Thalli wants to incorporate the rental business into a limited company to take advantage of limited liability and lower direct taxes/national insurance.

The company will pay Thalli 75% of the current value of each property, and this will be credited to Thalli's director's loan account.

As set out above, planning permission has been obtained at 11 Caxton Close for an extension which will cost £70,000 (including VAT). The extension is likely to increase the market value by £120,000 once completed. The current tenancy is due to expire in the next three months, which will enable the extension to be commenced without a tenant in place. Thalli is recently divorced and is considering moving into this property temporarily once the extension has been built, while she looks for a new home.

Thalli is considering two options for the incorporation:

- 1) To transfer all properties prior to extending 11 Caxton Close. All tenants would remain in place. When the current tenancy expires on 11 Caxton Close, a new tenant would be sought with that tenancy to commence once the extension is complete. Thalli will not move into 11 Caxton Close under this option.
- 2) To defer incorporation until the extension on 11 Caxton Close has been completed. Thalli will live there temporarily once the extension is complete.

**Requirement:**

**Explain the SDLT payable under each option and how it could be reduced. (15)**

3. Sotton College is a VAT registered further education college. It is partially exempt for VAT with a residual percentage of 13%. Income and expenses include:

| <u>Income/notional income (all amounts are exclusive of VAT, where applicable)</u>  | <u>Treatment by Sotton College</u> | <u>Notes</u> |
|---|------------------------------------|--------------|
| Free parking in the staff car park for staff when they are in work (non-subsidised income would be £3,000).                     | Exempt                             | 1            |
| Car parking fees charged to the public £5,000.  | Non-business                       | 1            |
| Restaurant meals for members of the public of £6,000.   | Taxable – 20%                      | 1, 2         |
| Fees from creche provided for students of £3,000.   | Non-business                       | 3            |
| <u>Expenses (all amounts of expenditure are exclusive of VAT, where applicable)</u>   | <u>Treatment by Sotton College</u> |              |
| New barrier to allow staff only to access the staff car park through use of an electronic card. Cost £35,000.                   | Did not recover VAT                |              |
| Pay machines for the public car park only, cost £45,000.  | Did not recover VAT                |              |
| Food and equipment provided for the restaurant, advertising in local newspaper, total cost £4,000 (15% of this standard rated). | Recovered VAT                      |              |
| One off purchase of play equipment for the creche £8,000.   | Did not recover VAT                |              |

Notes

- 1) The car parks are 30% cheaper than the local council run ones. A small profit is made but the intention is to cover costs and as the restaurant is on the edge of the car park, it advertises this facility and many people who use the car park stop there for coffee and cake. There is also a hairdressing salon and gym onsite, which the College hopes will gain further income from people parking there.
- 2) The students on the cookery course run the restaurant to gain work experience as part of their final grade on their diploma. Members of the public may eat in the restaurant. They are charged 50% of what a normal commercial rate would be for their meals.
- 3) The intention is to cover the costs of running the creche and help to encourage students to attend the college. The charge is 80% of what a commercial creche would charge.

**Requirement:**

**Explain, with reference to caselaw, the VAT treatment of the above income and expenses and any corrective action the College needs to make.** (15)

**You should NOT discuss assessments, interest and penalties, or adjustments to prior periods.**

4. The City Medical School, an NHS Trust with charitable status, has secured planning consent to demolish its 1950's offices and laboratories attached to the listed Edward Jenner Institute building. At a cost of £8.5 million (excluding VAT), residential accommodation comprising 50 single rooms will be constructed to house junior doctors, nurses and other key Trust workers at affordable rents. The planning consent requires that the Institute building be incorporated into the new residential accommodation with the latter five times larger than the retained Institute building.

Doors to the 50 single rooms will be accessible only to their occupants and Trust staff. The rooms will contain ensuite washing and toilet facilities, cooking appliances in the form of a hard-wired microwave and kettle but no fridge space, sink or food preparation area. There will be no internal access from one room to another. The accommodation will include a basement housing a television room and other social amenities for the sole use of residents and their visitors, along with laundry facilities for occupants (but no shared kitchen).

The ground floor of the Institute building will be reconfigured to form a porter's lodge and residential services' office. At a cost of £1.5 million (excluding VAT), its upper floors will be converted and fitted out as an archive. The archive will house, display and preserve historical items and materials, along with research papers, concerning the development of vaccines and the eradication of smallpox. Access to it will be open to school children, researchers, etc free of charge.

**Requirement:**

**Discuss, with reference to relevant caselaw, the extent to which the proposed building works will be relieved from VAT.** (20)

5. George Brown, his son and his daughter-in-law are in partnership operating a farm on the coast of Westmore. George's wife Amanda's involvement in the farming business is limited to maintaining the partnership's accounting records, for which she receives a modest salary.

On 1 April 2022 Amanda commenced a holiday letting/bed & breakfast business, principally to secure an independent source of income and to meet her interests outside farming. Guests are accommodated in barns owned jointly by George and Amanda, and converted by them in 2021.

Amanda operates and manages the business herself, with occasional help from George and her daughter-in-law. In the absence of a credit rating, Amanda could not open a separate business bank account, so bed & breakfast transactions were initially conducted through the farm's account. However, both businesses' transactions were segregated in the accounting records. Since May 2024, Amanda has maintained a separate bank account and accounting records.

The holiday letting/bed & breakfast business is marketed via Amanda's website, with the income and expenditure returned on her personal tax return. The business's turnover has not exceeded the VAT registration threshold and therefore, it is not VAT registered. Business rates are not paid on the barns but incorporated into the farming partnership's business rate assessment. Rent is not paid to George and Amanda for occupation of the barns. Amanda's business meets in full the utilities, maintenance, cleaning, etc costs of the barns and food consumables, with catering supplied to guests prepared in the farmhouse kitchen as a matter of convenience.

HMRC have enquired why the holiday letting/bed & breakfast activities are not reflected in the farming partnership accounts and on its VAT returns. HMRC's enquiry is not an appealable decision.

**Requirement:**

**Discuss HMRC's approach to the matter and comment on the potential outcomes of HMRC's enquiry.** (15)

6. On 25 September 2025, Nancy Fletcher completed the purchase of a stud farm, Tally Ho Stud, for £1.2 million, from two third party sellers, Jennifer Harvey and her daughter, Penelope Jefferies. The purchase included a stable barn with 15 horse boxes; tack and feed rooms; a staff flat situated above the stables (the market value being £80,000); an all-weather horse school; four paddocks and two breeding horses. The barn and horse school were subject to options to tax and both are within the scope of the Capital Goods Scheme. The turnover of the stud farm had declined markedly in the last four years, with the number of breeding horses falling from 15 to two.

Before completion of the purchase, Nancy opted to tax the barn and horse school (their market value being £700,000), notified HMRC and confirmed that her option to tax would not be disapplied. She also registered for VAT. Although the agreement provided for the addition of VAT, it was agreed that the transaction represented a transfer of the stud farm as a going concern, with the accounting records passing to Nancy.

Nancy will continue to breed from the horses acquired but with effect from early 2026, she will commence a livery business whereby, in return for a monthly payment, owners may stable their horses in identified horse boxes, have access to grazing, and ride their horses in vacant paddocks, with the obligation to feed and care for the horses resting with the owners.

Also, on 25 September 2025, Nancy and her partner Phillipe Mendoza exchanged contracts with Jennifer (as sole owner) for the purchase of the adjoining Tally Ho House and its surrounding gardens and grounds for £800,000, which includes some necessary building works that Jennifer commissioned. Completion of this transaction occurred on 24 October 2025 after the building works were completed. Nancy and Phillipe have a flat in London which they will retain.

**Requirements:**

- 1) **Discuss, with reference to case law, the VAT treatment of the Talley Ho Stud assets purchased by Nancy.** (8)
- 2) **Explain the SDLT chargeable on the transactions and Nancy’s reporting obligation(s).** (7)

Total (15)