

Institution **CIOT - ATT-CTA**

Course **CTA Adv Tech Domestic Indirect Tax**

Answer-to-Question-_1_

New Build Project

Construction services of new dwelling (new houses) are zero rated. However, it doesn't cover professional fees, e.g. surveyor, architect.

It also covers building materials used in the course of construction. Building materials are goods ordinarily incorporated into a building. The non-building materials, white goods are standard rated.

Electrical and plumbing services are zero rated.

The single charge of scaffolding services should qualify for zero rated. However, the one with separate fees are subjected to standard rated VAT, because hire of equipment used during the construction of building aren't building materials.

The domestic reverse charge (DRC) applies to construction services supplied by VAT registered business to another. The responsibility to account for VAT is shifted to the customers, unless the customer issue an End-user confirmation. Under DRC, the subcontract won't charge VAT on construction services, the customer (TZR) will be required to account reverse charge (self charge of output VAT) on its Box 1 on VAT return. No reclaim is

allowed on input VAT incurred on scaffolding, otherwise input VAT can be claimed on box 4 on the same VAT return. The net value of purchase should be entered into box 7.

The subcontractor cannot issue invoice with VAT charge, but state DRC subjected to the applicable rate (20% in this case) on the invoice. The subcontractor will account for the net value of sales in Box 1.

DRC doesn't apply to zero rated services.

As the developer, TZR may issue end-user confirmation to the subcontractor, as it won't be making onward supply of construction services. This will revert back to the normal VAT accounting, i. e. subcontractor charging TZR with VAT.

There is cashflow advantage not to issue end-user confirmation, so it is recommended that TZR not to do so, but account for reverse charge on its VAT return.

The supply of first grant of major interest of dwelling is zero rated, so it may reclaim input VAT incurred on the construction.

Refurbishment project

The conversion is a qualifying conversion, subjected to 5% under

Sch 7A Group 6, as there is a change of number of flats in single occupancy household.

Therefore, TZR's supply should be reduced rated 5%.

The supply of the electrical and plumbing services by sub-contractors to TZR is also subjected at 5% (reclaimable), while the scaffolding is standard rated (non-reclaimable) under DRC.

TZR's supply to Woulham Interiors is construction services, therefore subjected to domestic reverse charge. Therefore, Woulham Interiors is correct that TZR should issue an invoice without VAT but stating what VAT rate (5%) for construction services & 20% for scaffolding on the invoice under the DRC.

TZR only need to report its net value of sales on the Box 6. Input VAT incurred can be reclaimed, as it is a fully taxable business.

Keypen's supply is supply of staff, standard rated if Keypen is VAT registered.

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

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

Answer-to-Question-_2_

VAT liabilities:

Skiling & snowboarding lessons to children & adults is vatable. The VAT exemption of education doens't cover Skiwithus's supply because Skiwithus isn't an eligible body.

It also doens't fall under the VAT exemption of sport, because Skiwithus isn't non-profit making organisation.

Additional fees for equipment hire is separate supply. There is no admission charge, but even it is supplied as a pacakge with admission, typical customer would regard it as separate supply, as per case law Ice Rink Co Ltd.

The supply of children's skates are zero rated, but standard rated for adults.

Passes to access the cable suspended ski lift is reduced rated 5%, under Sch 7A group 13, transport of passengers by means of a

cable-suspended chair, bar, gondola or similar vehicle designed or adapted to carry not more than 9 passengers. Skiwithus's an eight person cable-suspended ski lift, so it should qualify.

(Case law Snow Factor Ltd)

Access the slope is free of charge, so there is no consideration.

Private parties and meals are standard rated. It isn't supply of land, but facilities for parties participants/use. The meal is standard rated in its own right, as food provided in the course of catering on Skiwithus's premises. There is no need to consider whether it is single or multiple supply because both are standard rated.

The hiring out for Tuesday consists of multiple elements.

Following the Card Protection Plan case, we need to consider in the eyes of the typical customer, if they are receiving 2 or more supplies which are distinct and independent from each other, or 1 supply made of several component parts. Considering the exclusive use by the club, the principal supply is the hire of the facilities to play ski activities, the other components are for better enjoyment of the principal supply. Therefore, it is a single supply, and standard rated.

Hotel & package holidays are standard rated. Hotel accommodation is excluded from Sch 9 exempt supply of land. Considering that none of the components of the supply are bought-in services,

otherwise Tour Operator Margin Scheme (TOM) needs to be considered, as the supply contains transport & accommodation. Again, for the same reason explained above, the other components are for better enjoyment of the principal supply. Therefore, it is a single supply, and standard rated.

Assessment

Based on the above analysis, the errors are as follows:

Lessons - understated output VAT

Hire of ski equipment - overstated output VAT for children's skate

Dry ski slopes pass - understated output VAT

Ski holiday package - understated output VAT

Action to take

It is recommended that Skiwithus compared the above with HMRC's assessment, if it agrees with HMRC's decision about the VAT liabilities of the supplies.

HMRC has gone back 4 years to the start of the operation.

The assessment window is the later of

- 2 years after the end of the prescribed account period in question (March 22)

- 1 year after the evidence justifying the raising of the assessment comes to light (Jan 23)

The 1 year rule is subjected to the 4 year cap.

Assessment must be made to the best of the commissioners' judgement (Van Boeckel, Singh, Irish Inns Ltd, Mohammed Tariq t/a Shama Batti and Cambridge Food and Wine).

If Skiwithus disagree with HMRC's assessment, it may request for a reconsideration within 30 days of the issue of the assessment. HMRC will have 45 days to respond. If Skiwithus is not satisfied with the response, it may appeal to the first tribunal within 30 days after receiving the decision from the reconsideration.

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

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

Answer-to-Question-_3_

Insurance Premium Tax (IPT) is levied at 12% standard rate or 20% higher rate. It is levied on insurance contract where the risk is located in the UK.

Travel insurance for a maximum 4 month period (single trip) is a UK risk when the person took it out/entered into it in the UK. If it exceeds 4 months (annual policy), it is UK risk when the person who took it out/entered into it is habitually resident in the UK.

It is important that Newplace University identify where the students are when the insurance is taken out/entered into. IP address should be a good indicator.

If it is UK risk, travel insurance is subjected to higher rate 20% IPT. If it is overseas risk, it is exempt from IPT.

There is no threshold for IPT registration. It is also irrelevant whether the person providing insurance is regulated under the Financial Conduct Authority or not.

Given that the Travel insurance are higher rate contract, and Newplace Insurance Ltd has an intention to receive fees for arranging insurance contract, at or about the time the contract is effected, it is a taxable intermediary. It must register for IPT within 30 days, i.e. by 31 July 22.

A premium includes payments for risk, administration costs, commission, interest on instalments (but not charges under a separate contract, e.g. regulated by the Consumer Credit Act 1974), tax.

Therefore, the fees of £10 and interest are part of the premium.

Under option 1, the fees of £10 is disclosed to the students, but we need to consider whether it is done under a separate contract.

- The insured is an individual
- The individual is required to enter into the broker's contract as a condition of entering into the insurance contract.
- The amount charged by the broker to the individual is not open to negotiation

Therefore, it isn't done under a separate contract and subjected to IPT.

As it is disclosed to the students, Insrigh Ltd shall account for the IPT on £115 and Newplace Insurance will account for IPT

on the £10; IPT due respectively are £19.17 and £1.67

Under option 2, as the fees is not disclosed to the students, the fees is subsumed in the premium. Insright Ltd should account for IPT on the full premium of £125. Newplace Insurance shouldn't account for any IPT on the fees.

For those students paid by instalments, we need to consider whether it is a separate contract to determine if it is subjected IPT. On top of the 3 conditions mentioned earlier, there is additional point to consider, i.e. whether the amount charged by Insright Ltd is arrived at with a comprehensive risk assessment on the individual's circumstances. If it does, and the 3 conditions aren't met, the contract may be treated as separate, the interest can be outside the scope of IPT.

Given that Newplace Insurance is required to register for IPT, it should also be aware of the tax point of the IPT is the receipt of premium. The accounting periods for IPT is similar to VAT, and cover a 3 month period. Returns and payments are due at the end of the month that follows the period. A 7-day extension is given for electronic payments. Return are filed online.

Late registration is subjected to penalty based on potential lost revenue, so it should register by 31 July 22. Late submission of IPT return or payments also subjected to penalty, currently 5% of the tax, subject to a minimum of £250.

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

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

Answer-to-Question-_4_

Amabal Ltd

Management services of the defined benefit pension scheme, supplied to Supply to Calidot is standard rated, as it is not a SIF, according to case law Wheels Common Investment FUnd.

Management services of the defined contribution pension scheme, supplied to Supply to Sonaday is SIF, therefore VAT exempt according to case law ATP Pension Service.

Supply of Finance & finance intermediary services are VAT exempt under Sch 8 Group 5. Finance intermediary services include

- bring together potential buyer of finance services with the provider, and
- carrying out work preparatory to the conclusion of contracts.

Amabal's services to Sonaday include fund management covering the administrative and account management services of the funds fall

under this exemption, as per Abbey National case law.

Bitic

Amabal's services in relation to the selection of properties to invest are of consultancy nature, therefore it is standard rated for the fees charged for this services

Further information is required as to what the fees Amabal charge with regards to the purchase and sale of properties. It is likely to be commission, which is again standard rated.

Invoice:

So far no invoice has been billed yet. Amabal's services are ongoing. The tax point of supply of services is the earlier of the invoice date or payment date. As Amabal are not connected parties with Calidot nor Sonaday, nor Bitic, the requirement of raising invoice every 12 months isn't applicable. however, it is recommended that Amabal should invoice as soon as possible for Sonaday and Bitic. The payments will be due in July and Sept 22, which are expected to be fallen under the 1st & 2nd quarterly VAT return ended Aug 22 & Nov 22 respectively.

As management fees from Calidot if received in May 22 will fall under the first VAT return period.

As Amabal hasn't adopted a partial exemption method, the standard method will apply, i.e. value base.

For the first VAT return:

Income	Taxable	Exempt		
from Calidot		£600,000 (£120,000x5)		

Therefore, on value based, it has only got exempt income, no recovery is allowed. However, as it is new VAT registered business, it may use usage based. In that case, input vat recovery can be based on either team headcount or the value of fund asset. Headcount may appears more reasonable, as this how the resources are allocated against the supplies.

Input VAT recovery:

As Amabal is an partially exempt (PE) business, input vat directly attributable to taxable supplies are fully recoverable, while input vat directly attributable to exempt supplies are non-recoverable. The residual input VAT is subjected to the PE recovery rate.

On usage base, the PE recovery rate is $(8+4)/(8+4+6) = 67\%$
rounded (monthly residual vat is less than £400,000)

The input VAT on office fit out can be reclaimed at 67%.
£100,000 VAT x67% = £67,000.

both payments falls under the 1st VAT return period, so £134,000 will be reclaimable in the first VAT return.

It is over £250,000 capital goods scheme (CGS) threshold, so it will be subjected to annual CGS adjustment over its economic life of 10 years, with respect to the future extent of taxable use.

Calidot & Sonaday

Calidot is fully taxable, the input vat incurred on the final salary scheme is fulfilling its responsibility as employer. The employer bear the risk from the pension scheme. Therefore, it is overhead cost.

Following the ATP Pension services & PPG Holdings BV case, HMRC have published updated guidance stating that businesses can continue to use the 70:30 split to recover VAT incurred on 3rd party pension fund fosts. So, provided that Amabal issue a VAT invoice to Calidot, Calidot should reclaim 30% of the input VAT, which relates to the management of the fund.

Sonaday is also fully taxable, however given that Amabal's supply is exempt, therefore no input VAT to reclaim. However, if any of Amabal's services are standard rated, Sonaday should be able to reclaim the input VAT. No input vat recovery is allowed if VAT is incorrectly charged by supplier (Amabal) though.

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

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

Answer-to-Question-_5_

Income	Income (£)	VAT (£)		Under Margin Scheme
Sale of bike	9,500	1,583.33		9,500
Expenditure				
Purchase	3,500	0		3,500
Expenses	2,500	500		2,400 (2,500x1.2))-600
MOT	29	0	Exempt	29
Net VAT to pay		£1,083.33		
Profit Margin				3,571

Sales of bikes by a VAT registered business is standard rated. Therefore on the deal he has agreed with the buyer, the consideration is £9,500 (£6,500 cash & £3,000 non-monetary consideration). Output VAT £1,583.33 (9,500/6) should be accounted for.

However, as the bike is a second hand goods, and he purchased it from a private buyer (non VAT registered) which he hasn't been charge input vat on purchase. BJ Motorcycles can operate a second-hand goods margin scheme, under which he will treat his margin (i.e. the profit made on each item sold) as the VAT inclusive amount. Cost incurred in repairing or improving the items prior to sale are ignored when calculating the profit margin. So, the £100 (500x20%) input VAT on spare parts can be

reclaimed as normal on box 4 on VAT return.

On this deal, the profit is £3,571 (see table above). Output VAT to account for is £595.17 (3,571/6).

On comparison, it is much preferential under second hand margin scheme, so it is recommended for Brian to adopt this.

Under this scheme, VAT invoice cannot be issued, but BJ Motorcycles is required to raise a sales invoice that meets the requirements on the second hand margin scheme. The output VAT of £595.17 should not be shown as a separate amount on the invoice.

There are other record-keeping requirements that BJ Motorcycles must meet, e.g. details of each individual item purchased, and also the later sales.

Global accounting is simpler to manage however since the individual items cost more than £500, it is not applicable to BJ Motorcycles.

Supply of mechanical breakdown insurance is supply of insurance, VAT exempt. BJ Motorcycles is acting as an insurance intermediary, by bringing together the people seeking insurance to the insurance provider. Supply of insurance intermediary service is also VAT exempt, so the commission of £50 should be accounted for VAT exempt income. Input VAT directly attributable to exempt supply is wholly non-reclaimable. It is likely to turn the company into a partially exempt business, which restricts its input VAT recovery. Any residual input VAT (not directly attributable to either taxable or exempt supply), e.g. overhead, will be subjected to partial exempt recovery.

However, if it is within the de minimis limit, i.e. total exempt input VAT is less than or equal to £625 per month on average and no more than 50% of the total input tax, the exempt input VAT can be reclaimed.

Input VAT is only recoverable if it has a direct & immediate link to onward taxable supply. If Brian restricts the raced bikes from private use, then it is promising for input VAT reclaim.

However, more evidence is required if the substantial cost of the race bikes is to justify the input VAT reclaim. i.e. whether the log on the bikes has a direct & immediate link to onward taxable

supply, e.g. how it help generate more future income or gain more customers. A proper business plan would be useful to substain HMRC's challenge.

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

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

Answer-to-Question-_6_

Cruises

Supply of passenger by boats capable to carry 10 people or more (including crew) is zero rated.

The boat have carrying capacity of more than 10 passengers, so it does fulfill this zero rating, so the £20 is subjected to 0% vat.

The country cruise can be zero rated VAT, if it is a leisure cruise, with stops during the journey.

Dinner cruise is standard rated, because it is a single supply of entertainment, rather than passenger transport.

There was a case (British Airway) about in flight catering being treated as zero rated, however considering of the night cruise, the catering isn't ancillary or for the better enjoyment of the principal supply, therefore the case law not applicable here.

Visitor card is providing multiple supplies, each with its distinct feature, an aim in itself. Therefore, each element should be treated separately. The admission is subjected to 20% VAT, the passenger transport is zero rated.

It is a multi-purpose voucher, the VAT liability could be different as it is redeemable at different location. The vat liability whether variable or not will depend on the supplier's VAT status, i.e. whether they are VAT registered, and whether any fall under the cultural exemption.

Therefore, when the float card is sold, no VAT should be accounted for. The output VAT should be accounted at the point of sale, when it is redeemed.

The administration charge is subjected to 20% VAT.

If the company knows it upfront that the admission are all subjected to the same VAT rate, then it will be a single purpose

voucher, then output VAT should be accounted for on the sale of the Floatcard. However, on this case, it is unlikely to know, because it could be zero rated or standard rated supply, and the company cannot tell what will customer redeem and number of times of redemption for each supply.

However, as only one daytime cruise is allowed, which is £20 zero rated. If all the attraction are subjected to standard rated VAT, it may be reasonable to say that it is clear enough upfront what is the vat liability, i.e. £20 zero rated, £60 standard rated. Therefore, £10 output VAT should be accounted for on each Floatcard.

Either way Floatboat should be able to fully reclaimable input VAT incurred into the business, as it is making taxable supply.