

# **The Chartered Institute of Taxation**

**Awareness**

**Module A: VAT including Stamp Taxes**

**November 2022**

**Suggested solutions**

- 1)
- Marcus may recover pre-registration input VAT on goods acquired, and services provided **for his business** where certain conditions are met. 1
- For goods, two conditions must be satisfied.
- First, the goods were acquired within the 4 years prior to registration – Yes. 1
- Second, the goods were still owned at the date of registration – Yes, in respect of the goods still held at 1 October 2022. It is not possible to recover VAT on the goods sold before 1 October 2022. 1
- For services, it must be the case that they were supplied in the 6 months (and not have been consumed) prior to registration. Therefore, he will not be able to recover input VAT on the invoice for legal fees. 1
- The input VAT will be recovered on Marcus' first VAT return. 1
- 2)
- Caitlin will meet the historic test on **30 November**. 1
- At that date, Caitlin's taxable supplies for **the previous 12 months will exceed the threshold of £85,000**: £98,0000 ((12 x £6,500) + £20,000). 1
- She should notify HMRC by **30 December** and must charge VAT from **1 January**; ie the first day after the date she would be required to notify the need to become VAT registered. 1+1
- Therefore, applying the historic test, Caitlin will not be required to charge VAT on the supplies made to Sheila on 18 November 2022 (the first supplies) but she will on the supplies made on 15 February 2023.
- Had Caitlin breached the future test before 18 November 2022, she would have had to charge VAT on the first supplies. This is because where the future test is met, the business must charge VAT with immediate effect. She did not breach the future test as her turnover for the **next 30 days alone** did not exceed the VAT threshold of £85,000: £26,500 (£6,500 + £20,000). 1
- 3)
- Desktop hosting services:
- This is a continuous supply of services. 1
- Therefore, the tax point is the earlier of invoice and payment: 28 September 2022. 1
- Photocopier:
- The basic tax point is the date on which it was delivered: 2 October 2022. 1

However, the basic tax point is overridden where an invoice is issued or payment is made before the basic tax point. 1

In this case, the invoice was issued and the payment was made before the basic tax point. Therefore, we take the earliest: 20 September 2022. 1

4)

The company may recover 50% of the VAT on the leasing charge: 50% of £120 = £60 1

The company may recover 100% of the VAT on the maintenance charge: £30. 1

The company may recover input VAT equal to 1/6<sup>th</sup> of the fuel element of the mileage claim. 1/6<sup>th</sup> of £60 = £10. 1

However, in order to recover the VAT, the company must hold a receipt for fuel for an amount at least equal to the amount claimed. £70 exceeds £60 and so this condition is met. 1

Further, the receipt must be dated no later than the date of the business trip. This condition is not met and so the company cannot recover the VAT of £10. 1

5)

The building falls within the capital goods scheme as the cost of the building was more than £250,000. 1

The initial recovery is determined by the percentage of taxable sales for the VAT year of acquisition: 70% x £160,000 = £112,000 input VAT may be recovered initially. 1

The company must monitor its percentage of taxable sales over ten VAT years, making adjustments where the percentage differs from that of the year of acquisition. 1

Based on the estimated figure for the year to 30 September 2023, the company will pay £1,600 to HMRC, calculated as follows: 1

$(£160,000 / 10) \times (70\% - 60\%)$  1

6)

To determine whether Terry is a limited cost trader, we first need to determine the **VAT-inclusive cost** of his relevant goods. 1

This excludes: 1

- the costs of services (eg rent), and 1

- excludes capital expenditure (eg the computer).

Therefore, the cost of the relevant goods is £920 (eg the hair products, including VAT).

Terry is a limited cost trader if this amount is either:

- Less than 2% of turnover (2% of £20,000 = £400) – NO 1

- Greater than 2% but less than £250 - NO 1

Therefore, Terry is not a limited cost trader for the quarter ended 31 October 2022.

7)

Part 1

Amira has 6 months from the date it was made to revoke the option to tax.	1
This is because Amira has not made any supplies in respect of the building.	1
Should Amira revoke the election, she will need to pay back to HMRC the input VAT recovered on the repairs.	1
All supplies made in respect of the building will be exempt from VAT.	1
This may increase the amount of rent that Amira can agree with Clive as Clive would not have been able to recover VAT charged on the rent.	1

8)

The sale of part of the business is a transfer of a going concern (TOGC) and therefore, it is <b>outside the scope of VAT</b> .	1
As the TOGC is not a supply for VAT purposes, the input VAT on the professional fees cannot be attributed to it.	1
As the fees have a <b>direct and immediate link</b> with part of the business, they are treated as <b>an overhead of that part of the business</b> .	1+1
As this part of the business makes wholly-taxable supplies, the input VAT may be recovered in full.	1

9)

Tleb Ltd will cease to meet the conditions for group registration as it will longer be controlled (ie more than 50%) by Sevolg Ltd.	1
Sevolg Ltd will need to notify HMRC of this within 30 days of the sale.	1
A partnership is eligible to join the VAT group where it controls the UK companies. This is not the case here as Z Ltd controls the partnership.	1
Rups Inc is not eligible to join the VAT group as it is not established in the UK and does not have a fixed establishment in the UK.	1
Esit Ltd continues to meet the conditions for group registration despite being dormant. Therefore, Sevolg Ltd is not required to remove it from the group registration although it is free to do so.	1

10)

Careless errors may be corrected in the next VAT return provided the net error is within the threshold.	1
The net error is £8,000 - £500 = £7,500.	1
The threshold is £10,000, being the greater of: £10,000, and	1
1% of turnover: £900,000 x 1% = £9,000	1

Therefore, if the errors are careless, Ladnas Ltd has the option of correcting them in the VAT return for the quarter ended 31 December 2022.

Where an error is deliberate, the error must be reported separately to HMRC; for example, using form VAT 652. A deliberate error cannot be corrected on the next VAT return. 1

11)

Consideration is cash plus debt released: £142,500 + £10,000 = £152,500. Not market value. 1+1

Stamp duty is £152,500 x 0.05% = £762.5. 1

Round up to nearest £5 = £765. 1

Stamp duty is payable by the purchaser, Kate. 1

12)

Answer by reference to SDLT

The consideration for SDLT purposes includes the VAT: £264,000. 1

The SDLT due is calculated as follows:

£150,000 at 0%	£0	
£100,000 at 2%	£2,000	1
£14,000 at 5%	£700	1
	<u>£2,700</u>	

The due date for payment is **14 days after the effective date**, being in this case **the date of completion**. Therefore, 18 November 2022. 1+1

Answer by reference to LBTT

The consideration for LBTT purposes includes the VAT: £264,000. 1

The LBTT due is calculated as above for SDLT. 2

The due date for payment is **30 days after the effective date**, being in this case **the date of completion**. Therefore, 4 December 2022. 1+1