Candidate Number

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Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module A – VAT including Stamp Taxes

1. In June 2016 Cameron, a VAT registered landscape gardener, remodelled the garden of Adam, a plumber. At that time, Adam agreed to pay Cameron £6,000 for the gardening work and to do some plumbing work for Cameron for free. Cameron would usually charge £7,000 for the gardening work.

   On completion of the work Adam paid £5,500. He has not yet paid the remaining cash or undertaken the plumbing work. Payment was due in full by 31 August 2016.

   You are required to briefly explain:

   1) The amount of VAT due on the original supply of gardening work by Cameron in June 2016; and

   2) Cameron's position in relation to bad debt relief.

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2. For many years Hamer Ltd, which makes standard rated supplies, has had three wholly owned subsidiaries:

   1) Stephens Ltd
   2) Mahon Ltd – making zero rated supplies
   3) Nawaz Ltd – making wholly exempt supplies

   All companies are incorporated in the UK with the exception of Stephens Ltd which is incorporated and operates in India. Hamer Ltd intends to form a VAT group.

   You are required to briefly explain:

   1) Which companies are eligible to form a VAT group; and

   2) The potential advantages of VAT group registration.

   You are NOT required to consider the disadvantages of VAT group registration.

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3. Marshy Ltd incurred the following entertaining costs in the quarter to 31 March 2017:

	VAT inclusive amount £
Meal with a potential UK client when trying to win a new contract. The meal was for six client staff and three employees of Marshy Ltd, who were involved in the negotiations	750
Team building activity event for the five directors of Marshy Ltd	900
Annual dinner for staff. The dinner was attended by 100 members of staff (including the five directors) and 80 of their guests. No charge was made to attendees	7,200

The company has kept all relevant invoices.

Calculate, with brief explanations, the total input tax recoverable by Marshy Ltd on its entertaining costs in the VAT return for the quarter to 31 March 2017.

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4. Mariella has purchased the freehold of a 20-year old commercial property. Before it is let to tenants, the property will be renovated at a cost of £200,000 plus VAT at the standard rate. Following renovation, Mariella expects to let the property for an annual rent of £35,000. She expects to let to either a firm of solicitors or a bank.

The previous owners did not opt to tax the property.

Briefly explain how the position differs for Mariella and her tenants if she:

1) does; or

2) does not

opt to tax the property.

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5. For the quarter to 31 August 2016, Braithwaite Ltd submitted its VAT return late and paid its VAT late. All previous VAT returns had been submitted on time and the VAT paid on time. Recent returns have been dealt with as follows:

Quarter to	VAT due/(repayable) £	Date return submitted/VAT paid
30 November 2016	7,000	12 January 2017
28 February 2017	(1,000)	15 April 2017

Braithwaite Ltd has annual turnover of approximately £500,000.

You are required to:

1) Calculate, with brief explanations, the default surcharges arising on the two VAT returns to 28 February 2017.

2) State the date when the surcharge period ends, and the rate applying to the next default in the surcharge period.

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6. On 15 March 2017, Raza Ltd sold a freehold office building, which it has always used for its own trade, for £600,000.

The company had purchased the freehold of the building when new in August 2011 for £400,000 plus VAT. The company, which only makes taxable supplies, has a VAT year to 31 March each year. No option to tax has been made in respect of the building.

You are required to:

1) Calculate the adjustment(s) required to Raza Ltd's VAT return as a result of the sale of the office building.

2) Briefly explain, with supporting calculations, whether this would differ if the taxable use of the building had been only 95% since 1 April 2016.

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7. Matthew, a VAT registered clothing retailer, issues retailer invoices wherever possible. He recently issued an invoice to a customer which he believed to be a valid retailer invoice, including only the following information:

   1) An invoice number

   2) Invoice date/date of supply

   3) Matthew's name, address and VAT registration number

   4) A description identifying each of the 10 items of adult clothing supplied (including unit price)

   5) The total amount payable by the customer

   The clothing supplied by Matthew was sold for a total of £220 plus VAT of £44 at the standard rate.

   You are required to state:

   1) The two reasons that prevent this from being a valid retailer invoice.

   2) The additional information required to make it a valid standard invoice (i.e. rather than a retailer invoice).

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8. Wood Ltd is a VAT registered UK business, making wholly taxable supplies. The following transactions took place during the quarter to 31 March 2017:

   1) The company received legal advice from a firm of solicitors based in Italy, in relation to a contract with a customer in Rome.

   2) Wood Ltd supplied some distance learning courses to a UK resident company, for training of employees in the New York office of that company. The employees will undertake the distance learning in the New York office.

   Briefly explain the VAT treatment in the UK of the legal services provided to Wood Ltd and the distance learning provided by Wood Ltd.

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9. Phoebe, a client of your firm, operates a launderette in a village close to her home. She has sent you her records in order to prepare her VAT return for the quarter to 31 March 2017. She assures you that she has kept all invoices, but you have not yet been able to find the invoices for the following purchases.

Detail	VAT inclusive amount payable £
Supply of electricity	
– to her home	210
– to the shop	450
Uniform provided for the three members of staff	240

In addition, Phoebe has a collection box in the shop for customers to leave tips and gratuities. These are shared between the members of staff.

You are required to briefly explain:

1) The rate of VAT on these supplies that have been made to Phoebe, and where possible how much input tax is recoverable, or any further information that is required.

2) The VAT treatment of the tips and gratuities given to the staff from the collection box.

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10. Oliver is an antique dealer operating the second-hand goods scheme. He has recently sold the following two items:

Antique brooch
Sold for £20,000 to a customer who bought it as a present for his wife. Oliver purchased the brooch for £5,000 from a private collector. He spent £1,500 plus VAT having the brooch cleaned and repaired.

Painting
Sold to a customer for £6,000. Oliver purchased the painting for £30,000 from a private collector. He originally thought it was by a famous local artist, but later discovered that it was a copy.

Oliver intends to start selling second-hand clothing and is considering operating a global accounting scheme for VAT.

You are required to state:

1) The output tax and input tax to be included on Oliver's VAT return in respect of each of the items sold.

2) Two differences between the second-hand goods scheme and the global accounting scheme.

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11. On 20 June 2016 Rooble Ltd sold a 10% shareholding in Poogle Ltd to Robindo Ltd for £250,000. Rooble Ltd has had a 45% holding in Robindo Ltd for many years.

The directors of Rooble Ltd believed that there was no Stamp Duty to pay on the transfer on the basis that the companies are part of the same group. The instrument of transfer has not yet been stamped. The issue will be resolved and any relevant Stamp Duty paid within the next month.

You are required to briefly explain:

1) Why the transfer of the shares is not exempt from Stamp Duty.

2) The maximum penalty that may be payable for having the instrument stamped late, assuming payment is made in May 2017. Use calculations to support your answer.

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12. On 1 September 2016 Jamarcus Ltd entered into leases over two properties:

    1) An office building in London. Jamarcus Ltd originally purchased the property in 1990 and sold the freehold of the property to Harrald Ltd, an unconnected company on 1 September 2016. Harrald Ltd immediately leased the property to Jamarcus Ltd for 10 years at a premium of £170,000.

    2) A factory on which Jamarcus Ltd paid a lease premium of £300,000 for a 40-year lease. In addition, it pays an annual rent of £10,000. The rent will be reviewed in 2024. The cumulative factor for a 40-year lease is 21.35507234.

    Briefly explain with the aid of calculations, the Stamp Duty Land Tax payable by Jamarcus Ltd on these transactions.

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