

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are Alex Lee, tax manager at Faul & Co LLP, a firm of Chartered Tax Advisers.

You have received a letter from Andrew Dixon (**EXHIBIT A**), a long-standing personal tax client of the firm. Andrew is an architect practising as a partner in Capital 3 Architects LLP.

Andrew is also a member of a separate partnership, DQS Partners, together with Barry Quirke and Chandri Shah. DQS Partners is a general partnership whose partnership assets include a number of investment and development properties around the UK and all of the shares of DQS Developments Ltd, a construction company which handles development projects on land owned by DQS Partners.

Andrew plans to retire from Capital 3 Architects LLP in the coming months. He is also planning to move with his wife, Estelle, to a newly-built house of his own design. They will be keeping their house in London. The new house will be built on a site owned by DQS Partners near the town of Crammton in Crammshire. Andrew is currently discussing the project with Barry and Chandri.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Andrew Dixon

EXHIBIT B: Appendix to letter from Andrew Dixon

EXHIBIT C: Email from Chandri Shah to Andrew Dixon

EXHIBIT D: Pre-seen information

Requirement:

Prepare a report for Andrew Dixon recommending the best approach for undertaking the project and advising on the other tax issues raised in his letter.

Continued

EXHIBIT A

Letter from Andrew Dixon

Alex Lee
Faul & Co LLP
23 High Street
Crammton
Crammshire
CR1 1ZJ

Andrew Dixon
17 Marland Street
London
W3X 7RP

1 November 2024

Dear Alex

Crammton Farm: Planned development of new home ("the Project")

As we discussed by telephone yesterday, I am planning to build a new home which will incorporate an existing agricultural barn on a site at Crammton Farm ("the Site"). I have designed the house myself and intend to retire there with my wife, Estelle, once it is completed. My proposed exit date from Capital 3 Architects LLP is 30 June 2025. All of the related tax and accounting matters in respect of that exit are being handled by Capital 3 Architects LLP's own accountants, Coppars & Co Ltd, and I do not require any advice on that aspect at present, although I will come to you on my personal position at some point in the future. Note that Estelle and I will be keeping 17 Marland Street, our London home we have lived in since November 2023.

I plan to finance the Project by selling two out of three of my investment properties and am able to make up any shortfall from my cash savings. I do not have any preference for which two properties are sold (as I believe their values are roughly similar) though I should like the sales to be achieved in the most tax-efficient way possible. Details of these investment properties are set out in Part 1 of the Appendix to this letter (**EXHIBIT B**). You should be aware that 15 Rivers Mews, London, which I have always owned in my sole name, was used as our family home until November 2023. It has since been occupied by tenants but they are planning to vacate shortly so there should be no difficulty in selling the house. You should also have details on my permanent file of the other two properties (**EXHIBIT D**). I am not planning to make any other disposals and estimate that my income from all sources in the year 2024/25 will not be materially different from 2023/24.

Details of the Project are as follows:

- 1) The Site comprises one acre of bare land together with an old stone barn which was formerly used as an outbuilding.
- 2) The freehold of the Site was purchased by DQS Partners in April 2016 for £110,000 and is included in their balance sheet as trading stock. The current market value is £270,000. Following discussions with my other partners in DQS Partners, two options are under consideration for how the Project might be carried out.

Option 1

DQS Partners would contract with DQS Developments Ltd to carry out the building works, employing sub-contractors as necessary. DQS Partners would then sell the completed house to me for £902,000, as set out in the Appendix (**EXHIBIT B**). We, the partners, are agreed that DQS Developments Ltd should charge on the basis of cost of materials plus its usual profit margin for building services. DQS Partners will, as normal, handle project management within its agreed estimates.

Option 2

I would purchase the Site from DQS Partners at the market value of £270,000 and then engage DQS Developments Ltd to carry out the bulk of the works. However, I would also:

- 1) Purchase all the materials and equipment personally, with the exception of certain hi-spec electrical equipment (see below) as I think I will be able to obtain a better price for some items than if DQS Developments Ltd handles the purchasing.

Continuation

- 2) Instruct a specialist electrician, Gary Sparkes, to supply and install the high-spec electrical equipment. This will include a sound system, a security alarm system, roller blinds which can be controlled remotely and an electric gate to the property with remote access. DQS Developments Ltd have a preferred firm of electricians, but I do not think they are as skilled as Gary. Gary is VAT-registered and has worked as a sole trader for many years.

- 3) Instruct a project manager, Constantius Consulting Ltd, to oversee the project for a fee of £50,000 plus VAT.

Following my discussions, I have summarised the estimated cost to me of Option 1 and Option 2. These are set out in, respectively, Parts 2 and 3 of the Appendix to this letter (**EXHIBIT B**). I also attach an email from my partner, Chandri Shah (**EXHIBIT C**), providing some further information for your assistance.

One of the things I like about Option 2 is that it gives me direct creative control of a project which I hope to use as my main home for the rest of my life. This is especially the case with materials and the kind of finishing, etc, which would be left to DQS Developments Ltd's team under Option 1.

This is clearly quite a substantial project and I will be happy to provide any further information as needed.

I would be grateful if you could provide me with advice on the tax and related issues for each option and let me know which you recommend as the better course of action.

I look forward to hearing from you.

Yours sincerely

Andrew Dixon

Continued

EXHIBIT BAppendix to letter from Andrew DixonPart 1: details of market values of investment properties

<u>Property</u>	<u>Address</u>	<u>Estimated Market Value</u> £
1	15 Rivers Mews, London	430,000
2	73 Parks Street, Kidderminster	410,000
3	11 Gulliver Avenue, Worthing	425,000
Total		<u>£1,265,000</u>

Part 2: purchase price for me under Option 1

DQS Partners estimate a selling price for the completed house of £902,000, made up as follows:

<u>Item</u>	<u>Marked-up Cost</u> <u>(Note 1)</u> £
Construction works and materials	512,000
Sub-contractors employed by DQS Developments Ltd	120,000
Market value of Site	<u>270,000</u>
Total	<u>£902,000</u>

Note 1

All costs are shown net of input VAT recoverable by DQS Developments Ltd and DQS Partners, but include their usual profit margins, and remuneration for project management.

Part 3: my estimated costs under Option 2

<u>Item</u>	<u>Cost</u> £
Purchase of Site at market value	270,000
Building materials	180,000
Goods and services supplied by DQS Developments Ltd	275,000
Supply and fitting of hi-spec electrical equipment (Gary Sparkes)	125,000
Project Management (Constantius Consulting Ltd)	<u>50,000</u>
Total	<u>£900,000</u>

All costs are shown net of VAT but include DQS Developments Ltd's estimated profit.

EXHIBIT C

Email from Chandri Shah to Andrew Dixon

From: chandri@dqspartners.co.uk
To: andrew@capital3architectsllp.co.uk
Subject: Crammton Farm: Barn conversion project ("the Project")
Date: 29 October 2024

Hi Andrew

Hope you're well – just coming back to you on this one.

We are agreed that both DQS Partners and DQS Developments Ltd should aim to make their usual margins on the project. The accountants have also advised that any sales must be at open market value or we will face very messy tax consequences.

The Site: Details

I have gone back to the file and confirmed the following about the barn and its site (together, "the Site"):

- 1) First of all, as we thought, the barn is not a listed building.
- 2) Secondly, planning permission was received for the conversion and extension of the barn into a residential property on 4 June 2024, so we have plenty of time to get this over the line. The barn has always been used for agricultural purposes.
- 3) The Site comprises one acre of bare land and, obviously, the barn. We reckon, now that planning permission has been received, the Site is worth about £270,000, before any works begin.
- 4) As you know, we have not opted to tax the Site for VAT purposes.

Construction Works

We discussed the estimated costs of construction the other day for the two options under consideration and you already have those figures.

I have now discussed the practicalities of the works with Barry too. Under either option, he would estimate a total build time of about six months. He tells me that DQS Developments Ltd should have capacity to start work from the end of November at the latest.

Hopefully this is what you need to talk to your tax adviser. Please let me or Barry know if you need any more detail.

Thanks

Chandri

Chandri Shah, FRICS
Partner, DQS Partners
Director, DQS Developments Ltd

EXHIBIT DPre-seen informationClient name

Andrew Dixon

Date of birth

11 April 1960

Home address17 Marland Street
London
W3X 7RPContact

Tel: 07533 788 947

Email: andrew@capital3architectsllp.co.uk

Personal Tax Client background

Andrew is a successful architect and property developer, and has worked in both sectors for many years.

His principal source of income is as a member of Capital 3 Architects LLP, a role he has held since 2003. He receives a 15% profit share.

His property development activities are carried on as a partner in DQS Partners, a general partnership. He has a one-third share of the partnership's profits and assets. He has a long-standing relationship with the other partners: Barry Quirke, who is an experienced building contractor; and with Chandri Shah, who is a quantity surveyor. Each of the partners contributes their skill and experience to the partnership's activities.

As a partner in DQS Partners, Andrew is also a one-third shareholder in, and director of, DQS Developments Ltd.

DQS Partners and DQS Developments Ltd are not clients of this firm, and nor is Capital 3 Architects LLP. We are advised that all three entities are VAT-registered separately, and that Andrew is not responsible for filing VAT returns, etc., for any of the entities.

Andrew has been married to Estelle Dixon since September 1992, and they have two adult children. Estelle is very wealthy in her own right with substantial income and capital gains in her own name. Andrew and Estelle own their current London address jointly. Estelle is not a client of the firm.

Andrew also has a personal property portfolio, held in his sole name, the details of which are as follows:

<u>Property</u>	<u>Address</u>	<u>Family Home?</u>	<u>Date of Acquisition</u>	<u>Date Rental Began</u>	<u>Cost of Acquisition</u> £
1	15 Rivers Mews, London	Until November 2023	April 1996	November 2023	180,000
2	73 Parks Street, Kidderminster	Never	July 2004	August 2004	244,000
3	11 Gulliver Avenue, Worthing	Never	March 2011	July 2011	268,000
Total					<u>£692,000</u>

Continued

Taxation

UTR: 70812 44689

Andrew is not VAT-registered.

Andrew is UK-resident and domiciled and so his worldwide income and gains are subject to UK tax. Extracts from his draft self assessment tax return for 2023/24, with comparatives for 2022/23 are as follows:

<u>Income Category</u>	<u>Source</u>	<u>2023/24</u>	<u>2022/23</u>
		£	£
Trading Income	Capital 3 Architects LLP	290,000	275,000
	DQS Partners	47,000	44,000
Rental Income	DQS Partners	93,000	87,000
	Personal property portfolio	37,000	22,000
Investment Income	DQS Partners Bank Interest	6,500	7,000
	Personal Bank Interest	3,200	3,500
	Dividend from DQS	11,000	13,000
	Developments Ltd		
Total Income		<u>£487,700</u>	<u>£451,500</u>

No capital gains were realised personally in either year.

Andrew also has substantial investments in a Stocks and Shares ISA which generates significant tax-free income and gains.