

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Domestic Indirect Taxation

May 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 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.

1. TZR Renovation Ltd is a VAT and CIS registered construction and development company which is undertaking two projects.

New Build Project

It purchased a piece of land five years ago on which it planned to construct 100 new houses. VAT was not charged on its purchase. Construction began in 2020, with 85 of the properties constructed to date.

Electrical and plumbing sub-contractors are used by TZR Renovation Ltd to connect the houses to mains water and power supplies. Scaffolding services are provided by two sub-contractors. One charges separate fees for hiring, erecting and dismantling the scaffolding and the other makes a single charge for all services. One scaffolding sub-contractor asked if TZR Renovation Ltd would be making an end user notification. No notifications have been made to any of the sub-contractors, as TZR Renovation Ltd does not understand the implications for the business.

Refurbishment Project

In January 2022, following receipt of planning permission, TZR Renovation Ltd commenced the conversion of a four storey house into two self-contained flats, for its owner, Woulham Estates Ltd. Until work commenced, the house had always been a single residence occupied by a tenant of Woulham Estates Ltd. Each flat will have its own external front door with no restrictions on the separate use or disposal of each flat.

TZR Renovation Ltd contracted with Woulham Interiors Ltd, a wholly-owned subsidiary of Woulham Estates Ltd, to undertake the conversion to a basic plasterboard finish. TZR Renovation Ltd used electrical and plumbing sub-contractors to connect the flats to mains water and power supplies and a scaffolding sub-contractor. Woulham Interiors Ltd specialises in interior design and redecoration and is registered for VAT and CIS. It will invoice TZR Renovation Ltd's costs to Woulham Estates Ltd, together with its own charges for plumbing and electrical work, re-decorating and tiling the floors.

TZR Renovation Ltd received an email from Woulham Interiors Ltd, confirming that it will be recharging the works supplied by TZR Renovation Ltd to its parent company. However, Woulham Interiors Ltd has disputed the VAT charged on the first invoice from TZR Renovation Ltd and is requesting a VAT only credit note.

TZR Renovation Ltd has used construction staff from two local contractors, 5P Construct Ltd and Keypen Ltd, to service both projects. The staff from 5P Construct Ltd are skilled carpenters, a price was agreed in advance for the work and 5P Construct Ltd takes full responsibility for correcting any defects. Keypen Ltd provides three general labourers who work under the direction of TZR Renovation Ltd's foreman, based on an agreed hourly rate.

Requirement:

Discuss the VAT treatment of the supplies received by TZR Renovation Ltd and its onward supplies of property and construction services. (15)

2. Skiwithus Ltd is a commercial provider of skiing activities and has been operating since December 2017, from its dry ski slope centre in the Midlands. The company offers skiing and snowboarding lessons to children and adults. Lesson fees do not include equipment hire, but individuals can pay an additional fee for hire, where required.

Experienced snowboarders and skiers can purchase passes to access the cable suspended ski lift and can pay an additional fee for equipment hire. Anybody can access the slope free of charge, although in most cases people using the slope purchase a lift pass.

The company offers private parties for children using large inflatable rings to slide down the ski slope. The charge for parties is £20 per child, which includes a meal in the onsite café.

On Tuesday evenings, Skiwithus Ltd hires out the ski slope, equipment and facilities to a local unconnected ski club in return for a fee. An employee of Skiwithus Ltd opens and closes the ski slope on this evening and takes responsibility for handing out the correct equipment to skiers during the session. The club has exclusive use of the facilities during its session and has pre-booked and paid for this slot for three months in advance, as detailed in a written agreement.

Skiwithus Ltd also owns a hotel in Scotland and offers package skiing holidays in its own name. The package includes accommodation at its hotel, lessons and passes that allow use of an eight person cable-suspended ski lift on a nearby public slope. Travel to and from the Scottish hotel and slope is not included as part of the package.

Skiwithus Ltd prepares returns to 31 March, 30 June, 30 September and 31 December each year, and has been treating its supplies as follows:

<u>Activity</u>	<u>VAT Treatment</u>
Ski/snowboard lessons	Exempt
Hire of ski equipment	Standard rate
Dry ski slope pass	Zero rate
Snow tubing parties	Standard rate
Hire of slope	Standard rate
Ski holiday package	Standard rate VAT on hotel accommodation only

HMRC visited Skiwithus Ltd in January 2020 and raised enquires on Skiwithus Ltd's supplies. In June 2020, Skiwithus Ltd received a letter confirming that HMRC's enquiries were being placed on hold temporarily as a result of internal resourcing issues caused by Covid-19. HMRC subsequently requested some further information to assist with the enquiries on 17 July 2021. Skiwithus Ltd was closed for a period of time due to Covid-19 and, as a result, provided this information in January 2022, based on the treatment set out above, and providing values from 1 October 2017 to 31 December 2021. This information has been used to calculate the value of HMRC's assessment, dated 15 April 2022, which covers the periods 12/17 to 12/21.

Requirement:

Explain, with reference to case law, the VAT liabilities of Skiwithus Ltd's supplies and advise on possible actions to be taken in respect of HMRC's assessment. You are NOT required to discuss penalties. (20)

3. Newplace University has decided to offer travel insurance to its students. They will be able to buy either single trip or annual travel insurance. The cover will also be made available to overseas students before they arrive in the UK for the first time.

On 1 July 2022, Newplace University will incorporate a new wholly owned company, Newplace Insurance Ltd, with the intention of commencing business later that month. It will arrange for the insurance to be supplied to the students by a third-party insurer, Insrigh Ltd. Students will purchase the insurance online through Newplace Insurance Ltd's website and will generally pay by credit or debit card for the full amount due under the policy.

Two options are being considered for providing the annual insurance policies:

- 1) The student will pay £125 to Newplace Insurance Ltd and £115 will be passed on to Insrigh Ltd, with Newplace Insurance Ltd retaining £10 for arranging the insurance. The student will receive an itemised bill detailing the transactions.
- 2) Newplace Insurance Ltd will not charge a fee to each student, but instead the premium receivable under the contract of insurance is £125, which is collected from the student and passed on in full to Insrigh Ltd. Each quarter Insrigh Ltd will add up the total number of policies sold by Newplace Insurance Ltd and pay it £10 for each sale.

Where students do not wish to pay by debit or credit card, they can pay the total amount of £125 in three equal monthly instalments, but interest will be charged by Insrigh Ltd. Newplace Insurance Ltd would receive its fee out of the first instalment.

The insurance policy will also include, at no extra cost, cover for the reimbursement of medical expenses incurred abroad, should the policyholder become ill.

For single trip insurance, Newplace Insurance Ltd is considering the same two options above. For these sales, its fee will be 10% of the total sum charged to the student. The ability to pay by instalments will not however be available for single trip policies.

Newplace Insurance Ltd wishes to understand the Insurance Premium Tax implications of the above options.

Requirement:

Explain the Insurance Premium Tax implications of the above proposals and recommend which option Newplace Insurance Ltd should take. (15)

4. Amabal Ltd is an investment management business based in Edinburgh. It commenced trading in January 2022 and the first VAT return will cover the period 1 January to 31 May 2022, following a backdated voluntary registration application.

Amabal Ltd has contracted with the following GB based clients:

- 1) The trustee of the Calidot Pension Scheme, which is a defined benefit occupational pension scheme for the employees of Calidot Ltd. The scheme is funded by employer and employee contributions and invests in a range of securities. Amabal Ltd supplies investment management and administration services, which include collecting pension contributions, payment of pensions, valuation of the fund's assets and advice concerning reviewing and amending the scheme. On retirement, scheme members are entitled to a pension calculated by reference to length of service and final salary. Amabal Ltd will start to receive management fees in late May 2022.
- 2) The trustee of the Sonaday Pension Scheme, a defined contribution pension scheme for employees of Sonaday Ltd. The scheme is funded by employer and employee pension contributions and invests in a range of securities. Amabal Ltd will supply fund administration services, including the opening of accounts for new pension scheme members, crediting contributions to members' accounts, valuing the scheme's assets and managing pension payments to members. Investment management services are supplied by a third-party investment manager. Amabal Ltd will receive fees from July 2022.
- 3) Bitic plc, an investment trust company that owns residential and commercial property across GB, which it rents to tenants. Its shares are listed on the London Stock Exchange and are included on the official list maintained by the Financial Conduct Authority under s.74(1) FSMA 2000. The company's sole objective is for members of the public to invest in the company's shares and to generate profits from its real estate investments. Amabal Ltd will supply services in relation to the selection, purchase and sale of properties and will receive fees from September 2022.

Amabal Ltd has not yet issued any invoices for its services.

The trustees of the Calidot and Sonaday pension schemes are independent third parties. Calidot Ltd and Sonaday Ltd are fully taxable businesses. Bitic plc is partially exempt.

The services supplied to each client are performed by separate teams within Amabal Ltd.

<u>Client</u>	<u>Monthly Fee</u>	<u>Team Headcount</u>	<u>Value of Fund Assets</u>
	£		£
Trustee of the Calidot Pension Scheme	120,000	6	10 million
Trustee of the Sonaday Pension Scheme	60,000	8	30 million
Bitic plc	220,000	4	60 million

Amabal Ltd incurred office fit out costs of £500,000 plus VAT in February and March 2022. Future VAT bearing costs will include office rents and service charges, office utilities and general office overheads. Costs in connection with market data and IT systems will be directly attributable to each of the three teams. Amabal Ltd has not adopted a partial exemption method.

Requirement:

- 1) **Explain, with reference to case law, the VAT treatment of Amabal Ltd's services and its entitlement to reclaim Input Tax.** (14)
- 2) **Discuss the extent to which Calidot Ltd and Sonaday Ltd will be entitled to reclaim any VAT charged on Amabal Ltd's fees.** (6)

Total (20)

5. Brian Jones buys, restores and sells motorcycles as a sole proprietor, under the trading name BJ Motorcycles. He buys second-hand motorcycles from private sellers and sells the restored bikes to private buyers, usually through adverts placed in magazines or online. The average selling price is £8,000.

Brian recently became VAT registered and is about to make his first sale since the effective date of registration. The bike in question was purchased for £3,500. He has spent £2,500 plus VAT of £500 on spare parts used to restore the bike and £29 on obtaining an MOT certificate. A price of £9,500 has been agreed with the buyer, which will be made up of £6,500 cash and £3,000 for a second-hand motorcycle which Brian will take in part exchange.

Brian offers optional mechanical breakdown insurance to his customers for £250. Customers who purchase this enter into an insurance contract with the insurer, which covers the customer's risks in the event of a mechanical fault. Brian pays the insurance premium of £250 to the insurer on the customer's behalf and the insurer pays a commission of £50 to Brian.

Brian is a racing enthusiast and has raced bikes as a hobby in the past. Since becoming registered for VAT, Brian has purchased a high-performance sports motorcycle and has booked a place in six amateur track races taking place around GB in the coming months. The bike cost £35,000 plus VAT of £7,000. The 'BJ Motorcycles' logo is displayed on the bike, together with Brian's telephone number. He believes that attending the race events will raise the profile of his business and help him to find new buyers and sellers. Brian does not intend to use it for private journeys.

Requirement:

Explain how VAT should be accounted for on Brian's supplies and the extent to which he can reclaim input tax.

(15)

6. Kevin Yan is the sole director and shareholder of Floatboat Ltd. Floatboat Ltd is VAT registered and supplies canal cruises to the public, using its own boats and crew. The boats have seating for nine passengers and two crew. Two types of daytime cruise are offered, for £20 per person:
- 1) The city cruise travels to central Birmingham using public canals, where passengers may join or leave the cruise.
 - 2) The country cruise uses a private canal on the Orchard House estate. The cruise stops at Orchard House, a stately home on the estate. Passengers visiting the house can pay for admission at the main entrance.

Yu Yan, Kevin's mother, is the owner of Orchard House and the surrounding estate. Yu is registered for VAT as a sole proprietor and accounts for standard rate VAT on Orchard House admission fees.

Floatboat Ltd also offers evening dinner cruises, which include the city cruise and a three course meal and wine, for £75 per person. The catering is provided by its own staff.

Floatboat Ltd sells visitor cards (Floatcard) for £80 each, which allow the buyer one daytime cruise, plus admission to 20 visitor attractions in the Birmingham area, including Orchard House.

The Floatcard is valid for 72 hours from the time of purchase and can only be used once for each of the attractions, listed on the leaflet provided. It is transferable by gift. When used to gain admission to an attraction, it is scanned at the attraction's ticket office and an admission ticket issued. The admission price (which is between £15 and £20) is deducted from the value electronically recorded on the card, which is £500 when issued. On average, Floatcards are used at four attractions during its 72-hour validity period. Floatboat Ltd reimburses the attraction owner for the admission fee, less an administration charge of 40%.

Requirement:

- 1) **Discuss, with reference to case law, the VAT treatment of cruises supplied by Floatboat Ltd.** (6)
- 2) **Discuss, with reference to case law, how Floatboat Ltd should account for VAT on the payments made and received in connection with Floatcard.** (9)

Total (15)