The Chartered Tax Adviser Examination

November 2017

Awareness Module A
VAT including Stamp Taxes

Suggested solutions

Nov 2017 Awareness VAT Module

1.

Robert's taxable supplies exceeded £83,000 at the end of November 2016 (£10,000 × 5 + £40,000 = £90,000). **1**

Robert should have registered earlier with registration effective from 1 January 2017. **1**

Maximum penalty for this deliberate and concealed error is 100% of potential lost revenue. **1**

Penalty = 100% × <u>(£10,000 × 1/6</u> - <u>£500) × 6</u> = £7,000 **1+1**

2.

1)
As Tum Ltd provided its VAT-registration number, it will not incur French VAT but will treat the transaction as an acquisition. **1**

Tum Ltd must account for UK output VAT on the acquisition of the goods on its own VAT return. **1**

As Tum Ltd makes wholly taxable supplies and uses the goods in its business, it can recover the input VAT arising on the same VAT return. **1**

2)
In September, Mattre GmbH exceeded the distance selling threshold of £70,000 in sales to non-registered customers in the UK. **1**

Therefore, Mattre GmbH had to register for VAT in the UK (from September) and so would have charged UK VAT on the sale to Jeff in October. **1**

3.

Quarter ended 30 September 2016, VAT return and payment late (due 7 November 2016). **1***

Default surcharge notice commences until 30 September 2017 (no surcharge for first default). **1**

Quarter ended 31 December 2016, VAT payment late in surcharge period, so default surcharge of 2% of VAT payable, if surcharge more than £400. **1**

Quarter ended 31 March 2017, VAT payment late so default surcharge of 5% of VAT payable. **1**

Quarter ended 30 June 2017, no surcharge as VAT payment itself is not late. **1**

**recognition of due date (anywhere in answer)*

4.

VAT paid by Abigail Ltd on the purchase of newly constructed property = £6 million × 1/6 = £1 million. **1**

Abigail Ltd could not recover the VAT on purchase, and VAT was not charged on the rent, as the activity of renting out the property is an exempt supply. **1**

The sale of the property to Bartlett Ltd constituted a transfer of a going concern and so no VAT was charged. **1**

The ten year capital goods scheme period beginning 1 April 2011, is continued during the ownership by Bartlett Ltd. **1**

There is a capital goods scheme adjustment for the year ended 31 March 2017 because of the taxable use of 25% of the property, ie Bartlett Ltd can recover: **1**

£1 million/10 × 25% = £25,000 **1**

(5 marks maximum)

5.

	£	
Sales to unconnected companies @ 20%	16,000	**1**
Sales from Flower Ltd to Pine Ltd	-	**1**
Promotional sales:		
(£12,000 × 75% + (£12,000 × 25% × 95%)) × 20%	2,370	**1**
Sales to business customers in the USA – zero rated	-	**1**
Discontinued products £3,800 × 20%	760	**1**
	19,130	

6.

Bad debt relief in respect of Mick = £600 × 5% = £30 **1**

	VAT-incl sales £	Payment £	Amount outstanding £	More than 6 months outstanding £	
31 January 2017	1,200	(840)	360	360	**1**
28 February 2017	900	(900)	-	-	**1**
31 March 2017	450	-	450	450	
30 June 2017	150	-	150		**1**
				810	
VAT (1/6)				135	**1**

Total bad debt relief = £135 + £30 = £165

7.

	Taxable £	Exempt £	
Attributable to standard rated supplies	100,000		
Attributable to exempt supplies		6,000	
Non-attributable			
350,000/(350,000 + 50,000) = 87.5%			**2**
Round up % 88% × £40,000	35,200	4,800	**1**
Total	135,200	10,800	

Standard de minimis test:
Exempt input VAT is more than £625 per month (£10,800/12 = £900). **1**
Therefore, annual adjustment = £10,800 payable to HMRC. **1**

8.

Payments made at the end of each month starting on 31 July 2017 **1**
and ending on 31 March 2018 (ie nine payments). **1**

Each payment is 10% of the prior year liability ie £8,000. **1***

With the remaining £90,000 – 9 × £8,000 = £18,000 **1**
payable with the VAT return on 31 May 2018. **1**

**Candidates who noted that Bernard should notify HMRC of the increase in VAT liability (significant change, not covered in the learning materials) and so may have to pay based on current year liability, were given full credit.*

9.

The supply of the freehold of the new building (first major interest) was zero-rated **1**
as it was made to a charity which uses it for non-business purposes. **1**

The supply of the van was standard-rated but Fix was unable to recover the VAT as it does not use the van for business purposes (and is not yet VAT-registered). **1**

The supply of welfare advice for a charge by a charity is reduced-rate and so Fix may have to register for VAT if the value of these supplies exceeds the VAT registration threshold. **1**

The supply of welfare advice is a business activity and so VAT incurred on the purchase of the projection equipment can be recovered but only if Fix registers for VAT. **1**

10.

Gross takings:

	£	£	
Cash sales – no adjustment for cash stolen		80,000	**1**
Credit sales			
October	17,000		
November	25,000		
December	35,000		
		77,000	**1**
		157,000	

Standard rated purchases inclusive of VAT = £70,000 × 1.2 = £84,000 **1**

Standard rated sales = gross takings × standard rated purchases including VAT/all purchases = £157,000 ×£84,000/(84,000 + 30,000) = £115,684 **1**

Output VAT = 1/6 × £115,684 = £19,281 **1**

11.

1) The Stamp Duty is <u>0.5% × (£9,600 + £4,000)</u> = £68, <u>rounded up to £70</u>. **1+1**
Oliver, as purchaser, has to pay the Stamp Duty within 30 days. **1**

2)
Gift has no consideration so no Stamp Duty. **1**

3)
No Stamp Duty on the transfer of shares as part of a divorce settlement. **1**

12.

1)
SDLT on the total consideration:

	£	
125,000 @ 3%	3,750	
(250,000 – 125,000) @ 5%	6,250	
(925,000 – 250,000) @ 8%	54,000	
(1,480,000 – 925,000) @ 13%	72,150	
	136,150	**4**

1 mark for method of charging on total consideration, 1 mark for residential rates, 1 mark for additional 3%, 1 mark for bands correct

2)
Multi-dwellings relief – SDLT calculated on the average consideration and multiplied by number of properties. **1**