# The Chartered Institute of Taxation

**Awareness**

**Module A: VAT including Stamp Taxes**

**May 2022**

**Suggested solutions**

1)

1. The basic tax point is the date the service was performed (19 January). Later payment does not change this as the tax point. 1

2. The basic tax point is the date the goods are delivered to the customer (3 February) 1

However, a payment before this date creates an actual tax point, so the 20% deposit received should be treated as having a tax point of 29 January. 1

For the remainder of the transaction, the invoice being issued within 14 days will also override the basic tax point, meaning the remaining 80% should be treated as having a tax point of 10 February. 2*

**2nd mark here for recognising split treatment of 20%/80%*

2)

A supply of land to an individual who will build her own house is an exempt supply for VAT purposes. 1

Commercial property is initially rated based on the age of the property. A newly built freehold (Scots Law – Ownership) property sale (less than three years from construction) is a standard rated supply so 20% VAT should be added to the invoice. 2

The warehouse has been owned for many years, suggesting it is older than 3 years old. It would therefore be an exempt supply, unless Sally has made an option to tax (OTT). If Sally has previously made an OTT, the warehouse will also be subject to a standard rate 20% VAT charge. 2

3)

When issuing an invoice for payment, Karim is unlikely to know whether his customer will take advantage of the discount or not. However, if the discount is taken, VAT is only due on the amount actually received. 1

To account for this uncertainty, Karim should initially issue an invoice showing the full cost and charging VAT on the full amount. 1

Karim then has two options to deal with any subsequent discount:

1. Upon receipt from the customer, any discount taken can be accounted for by the issue of a credit note for the reduction in consideration, showing the VAT on that element. 1

2. To avoid the need to issue a credit note, the invoice issued can instead include the terms of the discount, showing the date by which payment must be made. 1

A statement must also be included to confirm that the customer can only recover input VAT based on the amount actually paid. It is often useful to include a breakdown of the discounted charge and associated VAT charge. 1

4)

| | | £ | |
|---|---|---|---|
| Normal annual adjustment | (£80,000 /10) x (76% - 78%) | (160) | 1 + 1* |
| Sale adjustment | (£80,000 /10) x (100% - 78%) x 6 years | 10,560 | 2 |
| Total additional recoverable VAT | | £10,400 | 1 |

**For using 78% in both the normal and sale adjustment calculations*

5)

1. A VAT registered trader is able to voluntarily deregister, provided there is a reasonable expectation that taxable supplies in the next 12 months will be below the deregistration limit. 1

The effective date would be the date of notification or an agreed later date. 1

2. Since VAT was claimed back on the purchase of the stock and equipment items, an adjustment will be required on the final VAT return to the date of deregistration on the deemed supply of these items. 1

The adjustment will be calculated based on the values of those items at the date of deregistration rather than their purchase price ie £4,900 + £14,000 = £18,900 x 20%= £3,780 1

The item purchased from the non-registered trader is not subject to the deemed supply rules so no charge would need to be included on this. 1

6)

| | | £ | |
|---|---|---|---|
| OUTPUT VAT | | | |
| Van sale | £6,120 x 1/6 | 1,020 | 1 |
| Car 1 – margin | (£3,700 - £2,500) x 1/6 | 200 | 2 |
| INPUT VAT | | | |
| Van purchase | £4,400 x 20% | (880) | 1 |
| Repairs to van & car | (£360 + £600) x 1/6 | (160) | 1 |
| VAT Payable | | £180 | |

*7)*

*Tutorial note: Ponn excluded as not under common control*

| | | £ | |
|---|---|---|---|
| 3rd party sales | Mino & Nyne Ltd (440,000 + 360,000) x 20% | 160,000 | 1 + 1 |
| Group sales | Mino to Nyne and Nyne to Mino | - | 1 |
| To Ponn Ltd | (28,000 + 22,000) x 20% | 10,000 | 1 |
| | | £170,000 | |

Any one of:
The members are jointly and severally liable for the group's VAT debt
It can be difficult to collect the information from all of the parties
Including a company making exempt supplies can affect the input VAT recovery for the whole group
Any default surcharge applies to the group's VAT

8)

| | | £ | | |
|---|---|---|---|---|
| **Sales** | | | | |
| Standard rated | 18,500 x 120% | 22,200 | | 1 |
| Zero rated | 7,300 x 100% | 7,300 | | 1 |
| | | 29,500 | | |
| VAT thereron | £29,500 x 12.5% | | 3,688 | 1 |
| Machinery sale | 4,000 x 20% | | 800 | 1 |
| **Purchases** | | | | |
| Materials and consumables | | | - | 1 |
| VAT payable | | | £4,488 | |

9)

Assurance visits are arranged periodically but there is no strict requirement as to when these may happen. Most visits are purely random. 1

Generally HMRC take a “risk-based” approach such that a low-risk trader is not likely to be visited as often as a high risk trader such as those operating largely in cash transactions. 1

An assessment must be raised by the later of:

- Two years from the end of the prescribed accounting period (30.6.21); 1
- One year after evidence relating to the assessment comes to light (10.3.23). 1

There is also an overall time limit for the issue of an assessment which states that an assessment must be issued not later than four years after the end of the prescribed accounting period concerned, or where an individual has died, not later than four years after his death. The four-year rule can only apply when the ‘one year after evidence’ rule is in point. 1

Therefore, the assessment was raised within the permitted period. 1

Max 5

10)

The VAT registration for Bambi will be backdated to take effect from 1 March 2022. 1

Output VAT will need to be calculated on all VATable sales made since 1 March 2022, as if VAT had been correctly charged to Bambi’s customers. 1

Input VAT could also be recovered for this same period provided records have been kept to support the amounts being claimed. This is unlikely to be possible since Bambi has not retained any records. 1

A penalty will be charged for failing to notify chargeability on time. This will be based on Bambi’s behaviour and applied to the Potential Lost Revenue (PLR). The PLR will be the VAT relating to the period 1 March 2022 to the date of notification. 1

The rate of penalty is likely to be between 30% and 0%, assuming the failure is careless and corrected unprompted. 1

11)

28 April 2007 – no Stamp Duty is payable when a company issues new shares, either at creation of the company or a later subscription for new shares.

14 September 2011 – transfers by way of a gift, where no consideration is payable, no stamp duty is payable.

3 January 2019 – transfers on divorce are not subject to stamp duty.

If an instrument that is liable to be stamped is not so stamped, it <u>cannot be used as evidence</u> in civil proceedings.

A company secretary <u>should not register a transfer</u> of shares or securities if the document has not been properly stamped.

1 mark each point

12)

Karl is purchasing more than six residential properties and so SDLT would normally be charged using the non-residential property rates:

| | | |
|---|---|---|
| £150,000 x 0% | - | |
| £100,000 x 2% | 2,000 | |
| £1,290,000 x 5% | 64,500 | |
| £1,540,000 | | |
| SDLT Payable | £66,500 | *For using non-residential rates* 1 |

However, Karl could claim multiple dwelling relief (MDR) so that the SDLT is instead calculated using the residential rates and based on the average price per property:
£1,540,000 / 8 = £192,500 average per property

| | | |
|---|---|---|
| £125,000 x 3% | 3,750 | *For using additional property supplement* 1 |
| £67,500 x 5% | 3,375 | |
| £192,500 | 7,125 | *For using residential rates* 1 |
| X 8 properties | | |
| Total SDLT payable | £57,000 | 1* |

Therefore Karl should claim the relief to reduce the amount payable to £57,000. 1

**For calculating based on average price and then multiplying by 8*

***ALTERNATIVE ANSWER SCOTTISH LBTT***

| | | |
|---|---|---|
| £150,000 x 0% | - | |
| £100,000 x 1% | 1,000 | |
| £1,290,000 x 5% | 64,500 | |
| £1,540,000 | | |
| LBTT Payable | £65,500 | 2 |
| £145,000 x 4% | 5,800 | |
| £47,500 x 6% | 2,850 | |
| £192,500 | 8,650 | *For using residential rates* 1 |
| X 8 properties | | |
| Total LBTT payable | £69,200 | 1 |

No claim for MDR should be made as this increases the total payable.