You must tick the box below if you have answered this Module.

The Chartered Tax Adviser Examination

November 2015

AWARENESS

MODULE A – VAT AND STAMP TAXES

Suggested solutions
Nov 2015 Awareness VAT Answers

1.

1) Hughes Ltd is under the same control as the other companies (Jeff owns >50% of share capital) and is established/has a fixed establishment in the UK, so can be included in the VAT group.

2) As Foes Ltd is a zero-rated supplier, separately it would be in a VAT repayment position. There would be a cash-flow advantage if Foes Ltd were excluded from the group because the company could recover input tax more quickly by making monthly returns.

2.

1) The tax points are the payment dates (1 June 2015 for the deposit and 31 October 2015 for the remainder).

2) The basic tax point would be 7 October 2015 (date of delivery). However, the deposit is paid earlier so the actual tax point for the deposit is the date of payment (1 June 2015). As the invoice was issued within 14 days of the basic tax point, the tax point for the remaining payment is the invoice date of 10 October 2015.

3.

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
<th>Recoverable input VAT £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golfing holiday (blocked, not for business)</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Parking charges (evidence not required, &lt;£25)</td>
<td>300/6</td>
<td>50 1</td>
</tr>
<tr>
<td>Leasing costs (part private use, 50% recoverable)</td>
<td>4,800 × 50%)/6</td>
<td>400 1</td>
</tr>
<tr>
<td>Employers’ Liability Insurance (exempt)</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Office cleaning (standard–rated)</td>
<td>2,100/6</td>
<td>350 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>800</td>
</tr>
</tbody>
</table>

4.

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output VAT 1/6 × £394,737 (W)</td>
<td>65,789 1</td>
</tr>
<tr>
<td>Less input VAT (£240,000 × 1/6)</td>
<td>(40,000) 1</td>
</tr>
</tbody>
</table>

Working
Standard rated supplies
= £500,000 × £1,500,000/£(1,500,000 +400,000) = 394,737 1+1+1*

*1 for multiplying by £500,000; 1 for the fraction with ESP; 1 for using 12 month figures in fraction

2
5.

1) Air travel is zero-rated (Schedule 8, Group 8, VATA 1994).

Catering is standard-rated.

However, this is a single/composite supply

as the meal was ancillary/incidental to the main service of the flight,

so the whole transaction is treated as zero-rated.

2) The input VAT on the hotel bill cannot be reclaimed as this was paid for using a round sum (flat rate) expense allowance.

6.

1) VAT-incl sales £ | Payment £ | Amount outstanding £ | More than 6 months outstanding £ | Bad debt relief (1/6) £
---|---|---|---|---
10 January 2015 | 2,400 | (1,000) | 1,400 | 1,400
10 March 2015 | 1,800 | - | 1,800 | 1,800
10 April 2015 | 960 | - | 960 |
10 May 2015 | 600 | (600) | - | |

2 | 3,200 | 533 | 1 | 1

Marks – 2 for allocation of payments; 1 for omitting 10 April 2015 sale from outstanding amount (i.e. application of 6 month rule); 1 for calc of VAT.

2) The relief is claimed as additional input VAT (box 4 on the VAT return).

7.

<table>
<thead>
<tr>
<th></th>
<th>Taxable £</th>
<th>Exempt £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable to standard rated supplies</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Attributable to exempt supplies</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Non-attributable</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>100,000/(100,000 + 23,000) = 81.3%</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Round up % to 82% 82% × £2,000</td>
<td>1,640</td>
<td>360</td>
</tr>
<tr>
<td>Total</td>
<td>9,640</td>
<td>1,860</td>
</tr>
</tbody>
</table>

Standard de minimis test:

Exempt input VAT is a maximum £625 per month (£1,860/3 = £620)

And is a maximum 50% of total input of £11,500.

Therefore, all input VAT recovered (£11,500).
8.

1) The error of £(210,000 – 120,000) = £90,000 cannot be disclosed on the next return as:

- it is a deliberate error (or it exceeds the greater of £10,000 and 1% of VAT-exclusive turnover (1% of £1,350,000 = £13,500) ie £13,500).

*Either reason given to score 1 mark

2) The error is deliberate but not concealed so the maximum penalty is 70% of potential lost revenue (70% × £90,000 = £63,000).

9.

1) Celine’s first purchase

Celine does not trade so is not VAT registered and, on an acquisition German VAT is charged (as at this point the German co. has no obligation to register for VAT in the UK).

Celine’s second purchase

However, once the UK sales by the German company exceeded the distance selling threshold, the German company would have registered for VAT in the UK, and so charged UK VAT.

2) Dora’s future purchases from Germany would be zero-rated in Germany if Dora supplies her UK VAT registration number to the German company.

10.

1) The supply of the plot of land is exempt (*Group 1, Sch 9 VATA 1994*).

2) Rental of camping pitches is standard-rated (*Group 1 exceptions*).

3) Provision of qualifying services to convert a single dwelling into multiple dwellings is reduced rate (5%) (*Group 6, Sch 7A*).

4) The grant of the lease is the first grant of a major interest (lease exceeding 21 years (20 years if in Scotland)) by a person constructing a dwelling, and so is zero-rated (*Group 5, Sch 8*).

*(references to legislation not required for marks)*
11.

1) In respect of an executed instrument, HM Revenue & Customs can adjudicate on:
   - Whether it is chargeable with duty
   - With what amount of duty it is chargeable
   - Whether any penalty is payable on late stamping
   - What penalty is in their opinion correct and appropriate

\[(s12 \text{ SA 1891})\]

1 mark per point, maximum 3

2) The appeal must be within 30 days

The appeal can only be brought on payment of the Stamp Duty, any penalty as per HM Revenue & Customs' decision, and any interest.

12.

Property on the divorce: SDLT = nil (exempt)

Lease premium: SDLT = 1% × £120,000 = £1,200
\[\text{(chargeable at 1% as annual rent over £1,000)}\]

NPV of rentals: SDLT = (£183,000 - £150,000) × 1% = £330

VAT-inclusive cost of commercial property = £260,000 × 120% = £312,000

SDLT = £312,000 × 3% = £9,360