

**THE INSTITUTE OF INDIRECT TAXATION
ASSOCIATE EXAMINATION**

**PAPER II VAT ROUTE
VAT**

28 JULY 2009

**TIME ALLOWED - 15 MINUTES READING TIME
3 HOURS WRITING TIME**

Candidates must answer **ALL 5 QUESTIONS** – (all parts of the question in **Section A and the four questions in Sections B and C**)

Each question carries 20 marks

Start each answer in a fresh book

All workings should be shown and (unless stated otherwise) made to the nearest month and pound.

Marks are specifically allocated for good presentation and references to relevant legislation.

Section A

Question 1

*This question is divided into 20 parts – **all parts should be attempted**. All parts carry equal marks – **total 20 marks** – marks will be awarded for statutory reference where appropriate.*

- 1) What rate of VAT applies to the supply of welfare advice and information by a charity?
- 2) What is the definition of “hot food” for the purposes of exclusion from zero-rating?
- 3) In relation to England, Wales and Northern Ireland, how is a “major interest” in land defined for VAT purposes?
- 4) What is the UK VAT liability of accountancy services supplied to a private individual resident in Spain by a UK based firm?
- 5) What is the VAT exclusive turnover threshold for entitlement to operate the Retail Scheme “Apportionment Scheme 1”?
- 6) Where a member of a VAT group registration ceases to satisfy the eligibility criteria, when must the change of circumstance be notified to HM Revenue and Customs?
- 7) What is the monetary value for postal importation of business purchases from outside the member states under which a VAT registered business may self-account for the VAT due on importation on its VAT return?
- 8) What is the turnover limit for joining and for leaving the Annual Accounting Scheme?
- 9) Under the Bad Debt Relief rules, if a customer refuses to pay the VAT element of an invoiced amount, how is entitlement to Bad Debt Relief calculated?
- 10) Under the Anti-Avoidance provisions, what is the turnover limit in terms of taxable and exempt supplies under which a VAT registered business is relieved of the requirement to notify the use of a “listed scheme” used for the purpose of gaining a “tax advantage”?
- 11) What is the annual VAT liability figure which triggers entry to the Payments on Account regime?
- 12) Once a business is entered onto the Payments on Account regime, what reduction in annual VAT liability in a complete reference year entitles a business to apply for immediate withdrawal from the scheme?
- 13) What two tests constitute the de minimis limit for partial exemption?
- 14) Under the Option to Tax rules, once an option has been exercised and all other criteria have otherwise been met to allow the option to be revoked, during what “cooling off” period may a revocation be made by a tax payer?
- 15) Under the Option to Tax rules, once an option has been exercised during what amount of time must a relevant interest in the building or land be continuously held to avoid the revocation of the Option?
- 16) Under the Global Accounting Scheme, which maximum monetary figure applies for purchases to be eligible for the scheme?

- 17) To be eligible to join the Flat-Rate Scheme for Small Businesses, what are the turnover eligibility criteria for entry in terms of taxable turnover and total turnover?
- 18) On registering for VAT, how far back from the date of registration is a trader entitled to reclaim VAT on purchases of services as if it were input-tax?
- 19) Where the “business gift” rules otherwise allow that no output-tax is due on the donation of goods, what upper monetary value applies, in terms of cost to the donor?
- 20) Where holiday accommodation is clearly seasonal, what minimum period of tenancy (or similar agreement) allows non-seasonal use of the accommodation to be treated as “residential” and exempt from VAT?

Section B

Attempt **both questions** in this Section

Question 2

Capital Goods Scheme

X Ltd is a UK VAT-registered company which carries on the business of insurance brokers and risk consultants making both taxable and exempt supplies within the UK.

In July 2003, it acquired new freehold office premises in Coventry (Building A) for £800,000 + £140,000 VAT from where it carried out all its business. It deducted input VAT of £56,000 on the purchase in its return to 30/09/03, based on a recovery of 40% in that period under the partial exemption standard method.

Due to expansion, in November 2004 it purchased a second (leasehold) office building in Birmingham (Building B) for a premium of £600,000 + £105,000 VAT and deducted £52,500 in its return to 31/12/04, again based on the standard method in that period which gave a recovery of 50%.

In 2005, X Ltd acquired land in Coventry for £200,000 (no VAT) and commissioned the construction of new office premises on the site. The total cost of constructing the building (Building C) excluding the land was £1.2 million + £210,000 VAT and this was billed to X Ltd in 3 stages - £600,000 + £105,000 VAT on 31/10/05; £300,000 + £52,500 VAT on 28/02/06 and £300,000 + £52,500 VAT on its completion on 31/05/06.

The relevant partial exemption recovery percentages were as follows:-

Quarter to:	31/12/05 – 50%
	31/03/06 – 45%
	30/06/06 – 60%

The relevant partial exemption recovery percentages following the annual adjustments each year were as follows:-

Tax year ending:	31/03/04 – 45%
	31/03/05 – 50%
	31/03/06 – 55%
	31/03/07 – 60%
	31/03/08 – 40%

The original Coventry office was put up for sale and the staff moved to the new premises in stages from 1/06/06. X Ltd has not opted to tax any of its properties and the old building was finally sold on 01/05/07.

The Birmingham office was destroyed by a fire in December 2006 and all the staff moved to the new Coventry building. The Birmingham site remains derelict and X Ltd no longer has any interest of value in it, having been compensated under its buildings insurance policy.

From this information, you are required to calculate the correct amounts of VAT deductible and any adjustments which should have been made for the tax years ending 2004 - 2008, identifying the correct tax periods for any such adjustments.

20 marks

Question 3

Fred Sheet

The following is an extract from a letter dated 10 April 2009 which Mr Sheet, an accountant, has sent to you.

VAT Registration

I act for a number of unregistered businesses and I seek your confirmation of the following.

Ms Val Avon runs a catering business from home. The turnover for the twelve months to 31 March 2009 is £30,000. The turnover is consistently around £2,500 per month. Ms Avon has obtained a contract to provide catering at the Farnborough air show in July 2009 and will be paid £65,000. The organisers will pay Ms Avon a deposit of £20,000 in June with the balance payable in July after the air show. The air show is held every two years and there is a possibility, but no guarantee, that Ms Avon will be awarded future contracts. I assume Ms Avon has to register for VAT but not until July.

Mr Mark Aroni purchased an Italian restaurant on 1 October 2008. The restaurant had opened on 1 April 2008 and the owners were not VAT registered (turnover for the period April to September was £45,000). The turnover for the first six months (ended 31 March 2009) was £50,000. VAT had been incurred on the costs of acquiring the restaurant and recently on the cost of refurbishment. I assume Mr Aroni can register voluntarily rather than wait until the threshold is breached, and once registered can recover VAT incurred on the costs referred to.

Mr Ian Dear is a business consultant and the total fees received during the last 12 months (ended 31 March 2009) were £65,000. Mr Dear's clients are mainly small businesses unregistered for VAT. The VAT incurred on running costs is small although Mr Dear did incur a substantial fee in March (around £5,000) from a law firm in Germany but the firm did not charge VAT. Mr Dear's turnover from UK clients is slowly increasing. The business will receive a fee this month for work performed for a German business but I assume this fee can be ignored when calculating turnover for VAT registration purposes.

I should be grateful if you would confirm my assumptions in the three cases referred to above. If you disagree with any of my assumptions please explain your alternative view and indicate the legal reference under which your view is held.

Please draft a letter to Mr Sheet explaining the VAT registration implications and requirements (or confirming Mr Sheet's assumptions) for:

- | | |
|-------------|----------------|
| 1. Ms Avon | 7 marks |
| 2. Mr Aroni | 7 marks |
| 3. Mr Dear | 6 marks |

Please provide legal references as requested by Mr Sheet.

Section C

Attempt **both questions** in this Section

Question 4

VAT Liability

You are a VAT Consultant and have been advising your in line manager on a number of VAT issues and have been asked to write a note confirming the advice you gave in the following.

Part 1

Ernie Stoppard Ltd is a haulage company based and registered for VAT in the UK only. It has various contracts with customers around Europe, some in the EU and some not and requires advice on the appropriate place of supply rules and VAT treatment of the following supplies of haulage, detailing why, noting applicable legislation and any supplementary documentation that may be required to support the treatment of the supply;

- A) Yetti Ltd, a UK company with manufacturing sites and VAT registrations in UK and Germany, asks Ernie Stoppard Ltd to;
- i) collect 200 tonnes of product from their manufacturing plant in Germany and bring it to their site in UK **3 Marks**
 - ii) collect 250 tonnes of raw material from a supplier of theirs in France and deliver it to their plant in Germany **3 Marks**
 - iii) another 100 tonnes of raw material to be collected from Germany and delivered to a customer of theirs in The Netherlands. **3 Marks**
- B) Twitter Ltd asks Ernie Stoppard Ltd to collect 50 tonnes of product from their site in the UK and deliver it to a customer of theirs in Turkey. **3 Marks**

Part 2

Doolittles llp is a combined legal and accountancy practice based in London. They have a varied client base, most clients being in the UK and they also have international clients and require advice on the appropriate place of supply rules and VAT treatment of the following supplies, detailing why, noting applicable legislation and any supplementary documentation that may be required to support the treatment of the supply.

Moonstruck SA are a French company registered for VAT in France, and have asked that Doolittles;

- i) carry out some legal work in respect of a parcel of land they are looking to buy in the UK for investment purposes **2 Marks**
- ii) carry out some due diligence work on a business that they are looking to buy in York **3 Marks**

Part 3

Wotbat Ltd are a UK company who manufacture high spec tennis equipment mainly used by top professionals in the game. A new customer who is an amateur tennis player from France has asked if he can hire 4 new tennis racquets to take with him to South Africa to play in a major amateur tennis event, as it's cheaper for him to hire the racquets than to buy them.

What is the VAT liability of Wotbat's supply, explain why, and give any other information you feel may be relevant? **3 Marks**

Question 5

Butterfly Insurance Plc

Butterfly Insurance Plc is a UK insurer, licensed to write premiums for UK policyholders. It is VAT grouped with two other companies – Butterfly Risk Advice Ltd, which provides fee-based consultancy services, and Butterfly Services Ltd, which is the representative member. All Group overheads, including staff, IT systems and lease interests are incurred by Butterfly Services Ltd, and a proportion of the costs recharged to the trading entities on a monthly basis.

The Group currently operates from offices in London and Edinburgh, in both cases the head landlord charging VAT on the respective leases held by the Group.

As a Tax Adviser, you have been trying to get the Finance Director to discuss partial exemption. It is now April, and the Finance Director has invited you to a meeting to discuss partial exemption, and also any VAT issues arising out of a proposed restructuring. In advance of this, he has sent high level figures for the year just ended on 31 March, and has asked you to indicate whether it is likely that the Annual Adjustment will have any financial impact.

	June	Sept	Dec	Mar	Total
UK premiums (m)	3.2	1.1	0.8	1.4	6.5
UK risk fees (m)	0.4	0.6	0.9	0.5	2.4
Taxable overheads (m)					
Rent - London	0.2	0.2	0.2	0.2	0.8
- Edinburgh	0.1	0.1	0.1	0.1	0.4
IT licence and software	0.1	0.1	0.5	0.2	0.9
Other	0.1	0.1	0.1	0.1	0.4

The proposed restructuring, planned for early June, consists of the following steps:-

1. Acquisition of a risk consulting business for £3m, including staff, IT systems and the freehold of a 4 year old £1m office in Coventry, all of which is currently a business division of Specialised Risk Consultants Ltd, which will continue to operate after the disposal.
It is planned that the acquisition will double the current fee levels.
2. Operating the risk consulting business solely out of Coventry, and the insurance business solely out of London.
3. Closure of the Edinburgh office, and assignment of the lease to a third party at an estimated value of £1m.

The FD has asked you to write to him:

- a) advising him on the impact of the Annual Adjustment, and when to account for it
4 marks
- b) highlighting any significant VAT issues arising from the acquisition, including a summary of any information that might be needed from the Vendor **10 marks**
- c) identifying any partial exemption opportunities or problems after restructuring has occurred, detailed calculations not required
6 marks

You should refer to the relevant legislation in your summary, and assume a constant VAT rate of 17.5%, and no direct attribution in the existing year's figures.