

**THE INSTITUTE OF INDIRECT TAXATION  
ASSOCIATE EXAMINATION**

**PAPER III CUSTOMS ROUTE  
OTHER INDIRECT TAXES**

**27 OCTOBER 2009**

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

Candidates must answer **5 QUESTIONS** – (all parts of the question in Section A, the one question in Section B and three questions from Section 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 is the definition of a taxable supply for VAT purposes?
2. What is the difference between an acquisition and an importation of goods?
3. When does an otherwise legitimate claim to input tax fall to be disallowed?
4. What is the time limit for the issue of an assessment under s.73 of the VATA 1994?
5. When is the supply and installation of mobility aids liable to VAT at the reduced rate?
6. What is the VAT liability of an annual grant made in relation to a pitch for a residential caravan on land subject to an option to tax?
7. When does Landfill Tax apply to a disposal of waste?
8. What is the current standard rate of Landfill Tax?
9. What are the two possible tax points for the disposal of waste by way of landfill?
10. What is form LT 1B used for?
11. What is the definition of Insurance Premium Tax?
12. Give four examples of insurance contracts that are exempt from Insurance Premium Tax.
13. What rate of insurance Premium Tax is applicable to supplies of insurance for the following transactions
  - a. A 125 cc motorcycle
  - b. A commercial dishwasher
  - c. Travel insurance for an air journey totally within the UK
  - d. Home contents insurance which covers the loss of baggage on overseas travel
14. What is a Climate Change Levy Agreement (CCLA)?
15. When is a supply excluded from Climate Change Levy?
16. Explain the two possible tax points for supplies covered by a Climate Change Levy Accounting Document.
17. What is a Renewable Source Declaration for Climate Change Levy purposes?
18. What is the definition of “aggregate” for the purposes of Aggregates Levy?
19. When is Aggregates Levy due on imported aggregate dredged from outside UK territorial waters?
20. Give four examples of when a tax credit can be granted for Aggregates Levy purposes.

## Section B

Attempt **the one** question in this Section

### Question 2

#### Yellow Skip Company Ltd

The Yellow Skip Company Ltd, which is registered for Value Added Tax, disposes its waste at a local authority dump where it is charged VAT and landfill tax at the standard rate of 40%. As the company's indirect tax advisor you have received a letter stating that the company has now purchased ten acres of land which includes two disused quarries and they have obtained planning permission to fill the quarries with non-toxic waste. The letter stated that a high proportion of the company's clients are not registered for VAT and asks if there are any ways in which the overall cost of tipping can be reduced for them.

**You are required to draft a letter:-**

- (i) Explaining when registration for Landfill Tax is required and how the Tax and VAT is calculated. **8 Marks**
- (ii) How and what savings, if any, may be achieved. **12 Marks**

## Section C

Attempt **three questions** from this Section.

### Question 3

#### IPT

**You have been asked to make detailed technical notes** in relation to the following scenarios in anticipation of a briefing you will have to give to a client. The client specialises in commercial marine and cargo insurance but intends to expand the business to cover associated personal lines insurance.

- (i) Set out the factors and reasoning that should be specifically considered and applied when determining the UK IPT treatment of hull and ships liability business.

**8 Marks**

- (ii) Determine the UK IPT liability of the following risks setting out your reasoning and the factors that determine the treatment in each case.
- Marine liability insurance covering a UK based ship owner in relation to the operations of a Panamanian registered vessel. The annual premium is \$12,500.
  - Hull coverage for a yacht of 20 gross tons registered and privately owned in the UK but permanently operating in the Caribbean. The annual premium is €4,500.
  - Cargo insurance covering goods owned by a German company being transported from UK to Germany.
  - Insurance covering damage to goods owned by a German company temporarily stored for three months in a UK Customs warehouse. The cover has been provided as an “add-on” to an existing goods in transit policy and an additional premium charged.
  - Insurance covering the hull and liability for a fleet of UK registered yachts (all in excess of 15 gross tonnage) operated by a German yacht chartering company. The annual premium for each yacht is €3,500.
  - Insurance covering goods owned by a UK business being transported from the UK to the USA.
  - Insurance covering the hull of a private yacht not registered in any country operating in the Pacific owned by a UK resident.
  - Loss or damage of/to personal property being transported from the UK to the USA owned by a UK resident moving to the USA.
  - Hull coverage for a fleet of 20 charter yachts operated by a German company in the North Sea. All the vessels are less than 15 gross tons, one is UK registered, the rest are German registered. The annual premium for each yacht is €2,500.

**12 Marks**

## Question 4

### Eco Power Generation Co

You are asked by a business man to advise him concerning the impact of Climate Change Levy (CCL) on his proposed business venture. He intends to invest in a number of power generation schemes, as he believes the future power needs of the UK will require a diverse mix of power generation plants.

His plans are for four different schemes

- A) A plant generating electricity from burning crushed coal mixed with gas
- B) A plant generating electricity from burning household and industrial waste
- C) A plant generating electricity from burning methane from landfill sites
- D) A plant generating electricity from wind turbines

He would like your advice on which schemes would be subject to CCL on the power generated, whether the purchases of fuel used in the plant would be subject to the addition of CCL and which schemes (if any) would benefit from reliefs and exemptions from CCL that may be available.

**You are required to write a report which should include:**

1. A general overview of CCL, explaining the legal basis on which it is enacted, the requirements for registration and the method by which CCL is charged to customers and declared to HMRC. **6 Marks**
2. Explaining how CCL applies to each of the plants A to D above, in respect of its application to the supply of fuel to the plant and the supply of electricity by the plant to its domestic and commercial customers. **8 Marks**
3. Specify which of the above supplies are Outside the Scope of CCL, Exempt or Excluded, and what different certification requirements apply to each category. **6 Marks**

## Question 5

### Big Dig Ltd

Big Dig Ltd excavated a lake for the Northern Wildlife Trust and was allowed to keep any aggregate won in the excavation process to sell on as it pleased. The taxpayer did not account for Aggregates Levy on the aggregate it sold on the basis that it had been won as a result of dredging works which are exempt from the tax. Following a visit by HMRC, the company was assessed to aggregates levy in the sum of £20,000 including penalties and interest on the basis that the construction of the lake was not the dredging of a water course.

**Write a letter to the client advising him as to how the assessment may be challenged and include guidance on what evidence may be helpful in the appeal.**

**20 Marks**

## Question 6

### Mr Electronic

Mr E was interested in electronic gadgets and had worked for number of years for an electronics firm. In early 2008 he came into a significant inheritance and decided to go into business on his own account – both selling and developing new products. He commenced trading in July 2008.

For the six months to the 31 December the sales income was £6,000 per month in respect of a single contract with one customer.

The business started to expand and the sales income in the following months was

January	£10,000	May	£30,000
February	£15,000	June	£45,000
March	£25,000	July	£60,000
April	£15,000	August	£20,000

During the first six months of trading Mr E developed a new hand held electronic detecting gadget and in January 2009 negotiated a contract for the supply of the gadget to and the delivery to a Far East company. In negotiating the contract which was signed on the 21 January 2009 he:

- Incurred legal fees from a Hong Kong lawyer of £5,000 which he paid in January 2009
- On the 20 February 2009 under the terms of the contract he received a deposit of £55,000.

In setting up the business he incurred the following costs;

January 2008	Legal fees of £5,875
February 2008	Computers and other workshop equipment £117,500
February 2008	Shop and workshop fitting out £58,750
April 2008	Purchased a small estate car for £23,500 which is in addition to his own car, for use in the business to transport stock etc

He has asked your advice on when he should or should have registered for VAT and if the sales to the Far East company were subject to VAT. He is not sure what input tax means, how it is accounted for and whether or not he is entitled to recover VAT on the set up costs.

**You are required to write a letter confirming the advice given which should include:**

- (i) Registration requirements and when a liability to register arose including any penalty or interest charge that may arise. **10 Marks**
- (ii) The VAT liability of the supplies to the Far East company including any supporting evidence required **4 Marks**
- (iii) Description of input tax and what input tax he is entitled to **6 Marks**

## Question 7

### Dental Europe Ltd

Dental Europe Ltd (DAL), a Republic of Ireland company acting as the European Distribution Centre in respect of dental prosthesis, in particular dental implants, has approached you to be their UK indirect tax advisor.

The Finance Director (FD) is worried because HMRC has recently written to him stating that it wishes to discuss UK Value Added Tax (VAT) with him. This is particularly concerning to the FD as DAL is not registered for UK VAT. In its letter HMRC state that they believe DAL had exceeded the limit for distance selling in the UK in respect of the sale of dental implants.

DAL is wholly owned by a US Parent company. All products are shipped from the US to the Republic of Ireland where they are packaged and then shipped directly to customers.

Sales of the implants are made from Ireland to various locations in the EU. All sales are to dentists. The understanding of the FD is that these customers do not have VAT input credit capacity.

DAL's sales to the UK total approximately €1m per annum. DAL sells primarily dental implants, this accounts for approximately 95% of turnover. The remaining 5% is made up of sales of "tool kits" which are very much complimentary to the overall installation of the implants.

The first supply from DAL to a UK recipient was made on 1 July 1999. The value of this supply was equal to €150,000.

The sale of dental implants is VAT exempt in the Republic of Ireland.

**Prepare a detailed letter to the FD addressing his concerns, in particular address the following:**

What is distance selling and the VAT obligation arising therefrom? **6 Marks**

What do the distance selling rules try to combat? **1 Mark**

The UK VAT liabilities of the supplies of dental implants and tool kits made to dentists. **4 Marks**

State, with reasons, whether or not DAL has a liability to register for UK VAT purposes and, if so, from what date is DAL required to be registered. **3 Marks**

Whether your advice would be any different if DAL had been audited by the Irish Revenue Commissioners in 2002, the Irish Authorities were demonstrably happy with the VAT accounting and were aware of the UK sales. **3 Marks**

What powers would HMRC evoke if DAL did not have the resources to pay the potential liability and was not able to recover the VAT from its customers at this late stage. **3 Marks**